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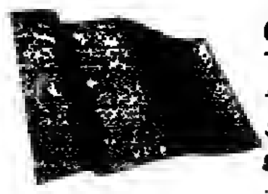

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FINANCIAL TIMES

Europe's Business Newspaper MONDAY NOVEMBER 7 1994 D8523A

Nissan tops £1bn investment mark in UK car plant

Nissan's car plant at Sunderland, north-east England, has become the first Japanese manufacturing venture in Europe where investment has topped £1bn ($1.6bn). *Ian Gibson, chief executive of* Nissan Motor Manufacturing (UK), said the plant was likely to create a further 25,000 new direct and indirect jobs over the next 10-15 years. Most of these will be in the north-east, which has been hard-hit by unemployment. Page 18

Deutsche Bank will challenge any German government move to force it to reduce its equity holdings in companies without tax relief, Hilmar Kopper, chairman of Deutsche's managing board, said. Page 19; Hopeful signs, Page 17

Lloyd's of London will see its underwriting capacity shrink next year despite fresh capital from corporate investors, the insurance market's chief executive Peter Middleton said. Page 19

Hill win sets scene for a tense showdown:

England's Damon Hill (left) withstood the pressure from German rival Michael Schumacher to win motor racing's Japanese Grand Prix and set the stage for a tense world championship showdown. The result left Schumacher just one point ahead in the title contest, with one race to go in Adelaide, Australia, next week. Mystery of Formula One, Page 13

Bossi issues challenge: Northern League leader Umberto Bossi indicated he is prepared to bring down the Italian government unless it backs federalism and economic reform. Page 2

Liberal churchman murdered: South African liberal theologian Johan Heyns was shot dead at his Pretoria home in what police think may be a white right-wing assassination. Heyns opposed apartheid while leading the Dutch Reformed Church, the country's main Afrikaans church. Page 2

Hamas offers olive branch: Militant Palestinian group Hamas offered to stop attacking Israeli civilians if Israel stops killing Palestinians. Ibrahim Ghosheh, Jordan-based Hamas spokesman, said his group would not talk directly to Israel but was prepared to negotiate through a third party. Trade deal near, Page 6

New pipeline leak in Russia: A corroded pipeline running through the Russian Arctic has spilled a further 13,000 tonnes of oil into the tundra in the wake of a spillage last month, according to environmental group Greenpeace. Moscow's emergencies ministry said it knew nothing of any new disaster in the area.

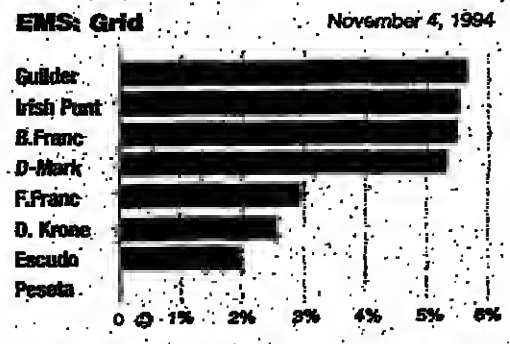
Angolan troops near Huambo: Angolan government forces fought their way to within six miles of the Unita rebel stronghold of Huambo in the country's central highlands. The ruling MPLA party denied violating a recently-initialled peace accord designed to end nearly two decades of civil war in the former Portuguese colony.

Iran-Iraq hostility flares: Iraq threatened to retaliate "at the appropriate time" after Iran launched a missile attack on an exile guerrilla base north-east of Baghdad.

France deports religious leader: Imam Zahar Eddine was deported from France to Algeria, accused of spreading fundamentalist propaganda. A Turkish and a Moroccan imam were sent home last month.

European monetary system: In a week when the US Federal Reserve intervened to support the dollar, tha main move in the EMS grid came from the Irish punt, which climbed above the Belgian franc and the D-Mark. The punt is benefiting from sterling's strength. This week the Bundesbank council could shift interest rates and affect the grid. Currencies, Page 27

EMS: Grid *November 4, 1994*



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Kurds kill teachers: Kurdish guerrillas killed four more village school teachers in south-east Turkey, where Kurdish-language teaching is forbidden and some lessons are based on Turkish nationalist themes. Fourteen teachers have now been killed in the region.

China frees dissidents: China said it had released four people jailed in 1989 for inciting anti-government activity and four people imprisoned for demanding Tibetan independence.

New York marathon: Mexican German Silva beat compatriot Benjamin Paredes, finishing in 2 hours, 11 minutes, 21 seconds.

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lev50.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.80
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pts225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.50	Lux	LFr65		Es225	UAE	Dh12.00

All set for small earthquake in Walla Walla

George Graham assesses a Republican threat to Speaker Tom Foley

Walla Walla in south-eastern Washington, close to the Oregon border, seems an unlikely place for an electoral earthquake. But it could play a small role in the defeat of a sitting Speaker of the US House of Representatives, a feat last accomplished in 1860.

An early missionary outpost that never matched the growth of coastal cities such as Seattle, the town sits in the shadow of the Blue Mountains, surrounded by onion fields and vineyards. It is the sort of place where a visiting reporter asking directions at Bill McClure's farm-machinery store, will prompt customer Bob Tinker to jump into his truck – with a deer rifle hanging behind the driver's seat – to show the way.

These are the folk on whom Republicans are counting in tomorrow's US congressional elections, predicting that they will make sweeping gains and perhaps even take control of both houses of Congress from the Democrats. And nothing would seal their victory more sweetly than the defeat of Mr Tom Foley in eastern Washington state. As Speaker of the House of Representatives, Mr Foley is third in line to the US president.

After Mr Foley's surprisingly weak showing in September's primary ballot, opinion polls showed him trailing far behind Mr George Nethercutt, a lawyer who is the most moderate candidate the Republicans have sent against him for years. The gap has narrowed, but Mr Foley himself says it is still "very much of a nip and tuck race".

In Walla Walla there is growing irritation with politicians and government, and more locals seem ready to throw out Mr Foley, whose intellectual and sometimes aloof manner symbolises for some the alienation of that other Washington.

Perhaps the most incendiary issue has been Mr Foley's decision to join a lawsuit questioning the limits on the terms a politician can serve in Congress – a decision which prompted his opponents to accuse him of suing his own voters.

"He has been ineffective here in our own district because his lack of support for issues such as term limits, the balanced budget amendment . . . and immigration reform have assured their defeat despite overwhelming support in eastern Washington," said Ms Ruth Fleenor, Walla Walla voter.

The anti-Foley tide has left business leaders in the state, who have a healthy respect for the clout of the Speaker's office.

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UN warns of threat to civilians in Sarajevo

Upsurge in fighting places strain on peace efforts

By Laura Silber in Belgrade and Bruce Clark in London

The UN warned yesterday of a serious threat to the welfare of the 300,000 civilians of Sarajevo *from an upsurge in fighting and* implored both the Bosnian government and its Serb enemies to respect the city's tattered cease-fire.

"We are calling on the parties not make the position of the UN untenable or deploy heavy weapons," a UN official said. "Sarajevo remains an exclusion zone in which the use of big guns could be subject to air strikes."

The warning followed an over*night incident in which Nato air*craft were forced to buzz the city to deter Bosnia's Moslem-led army and the Serbs from confrontation.

Diplomats from the US, Russia, the UK, France and Germany – the five-nation contact group which is supposed to be promoting peace in Bosnia – met senior UN and Croatian officials in Zagreb yesterday.

The contact group's unity has been strained by the renewed fighting, with the US defending the Bosnian army's offensive and Russia condemning it. Diplomats fear that strains will grow as the conflict escalates.

Up to 10,000 residents of Sarajevo were killed – mainly by Serb artillery shells – before the establishment nine months ago of an exclusion zone in which heavy weapons were either withdrawn or placed under supervision of the UN's 25,000-strong force in Bosnia.

However, the situation in the *capital, which relies on UN relief* flights for food and other essentials, has deteriorated since last August when the Serbs partly reimposed their blockade.

The weekend fighting was the latest sign that the ability of the UN's lightly armed troops to protect the civilian population from the consequences of war, and

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guarantee their own safety, is diminishing steadily.

The stand-off began when the Bosnian army opened fire with mortars on Serb-held territory near Sarajevo, provoking Serb artillery fire on the Moslem suburb of Hrasnica. Bosnian government infantry began advancing, firing small arms, and were warned – at first without success – by the UN to desist.

In northern Bosnia, the Bosnian Serb forces said they had fought off a threat from the government army to the town of Bosanska Krupa and regained some of the ground they had lost over the past week. General Ratko

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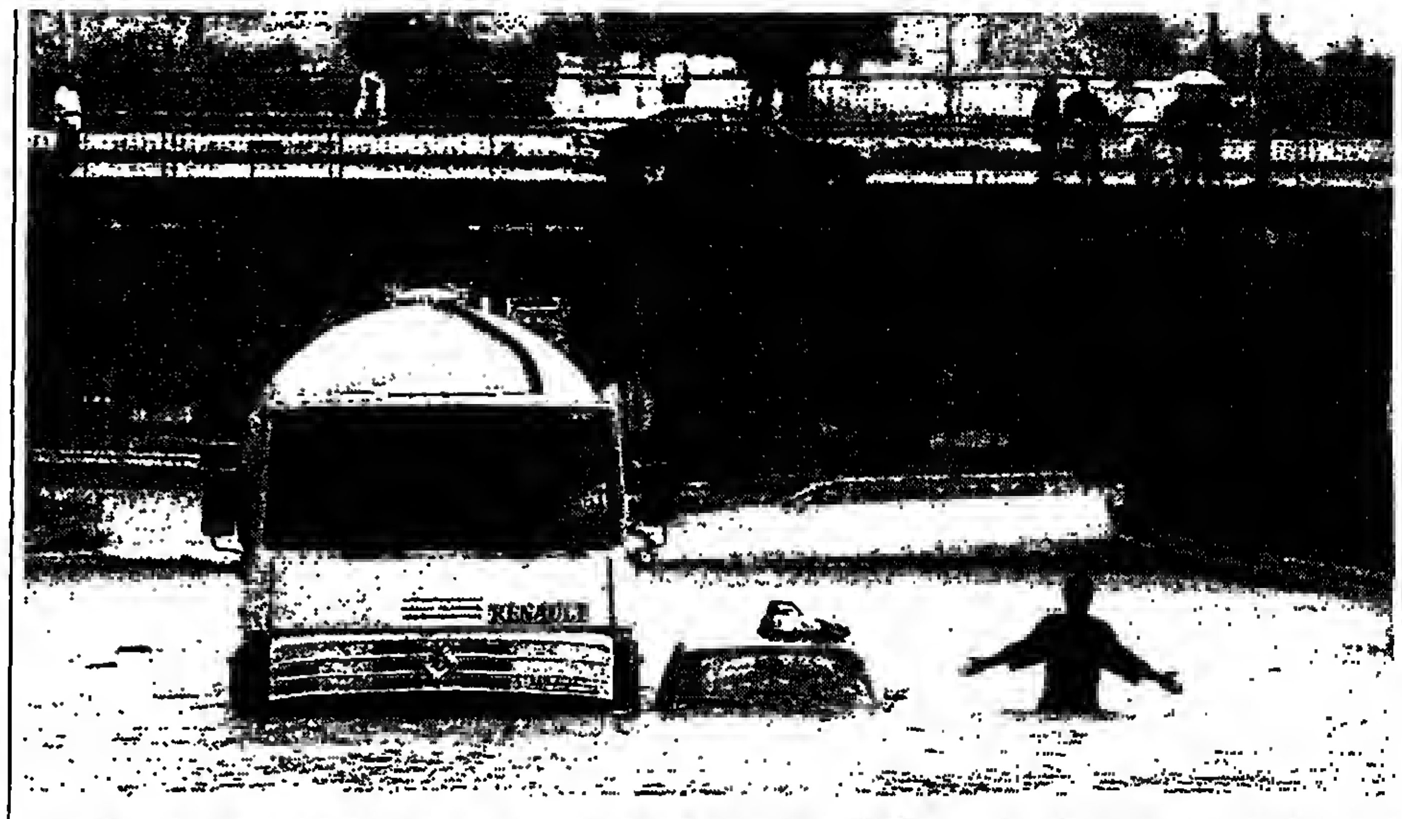

A man gestures to watchers on a bridge in Nice as his car becomes submerged by flood waters. Torrential storms battered southern France and northern Italy over the weekend, bringing death and devastation to the region. In Italy yesterday the death toll was 27, with nine people missing. More than 1,500 firefighters were working in the regions of Piedmont and Liguria where rivers had burst their banks and cut transport and power links. In France five people were missing. Many roads were blocked by mudslides in the Riviera hinterland and Corsica, while the airport at Nice was closed, with its runways and terminals flooded. Several homes were destroyed in the southern French Alps and dozens of villagers were evacuated, some of them by helicopter. Picture: Reuter

Airbus acts to boost ties with China

By Tony Walker in Beijing

Airbus Industrie, the European aircraft manufacturing consortium, will invest $25m in a new flight crew training centre in Beijing to strengthen its presence in the fast-growing Chinese market.

Mr Jean Pierson, managing director of Airbus Industrie, said the agreement signed at the weekend with the China Aviation Supplies Corporation (CASC) was *"only the first step" in a series of* such measures planned for the next few years.

Airbus Industrie's push follows similar moves by its main competitors, Boeing and McDonnell Douglas, both of which have announced steps recently to bolster their position in China.

McDonnell Douglas signed an agreement last Friday for the sale of 40 MD-80s and MD-90s to Chinese airlines. Half of those aircraft will be manufactured in China, with US-supplied parts.

The Airbus chief executive said the company would also establish a maintenance centre in Beijing to help the Chinese acquire advanced engineering and aircraft servicing skills.

Work on the flight training centre is expected to be completed by early 1996. It will be run as a joint venture between CASC and Airbus and will offer similar facilities to those established by the Euro-consortium in Toulouse and Miami.

Mr Pierson, who met China's president Jiang Zemin at the weekend, said the consortium would use its "muscle" with European governments to argue Beijing's case for entry to the General Agreement on Tariffs and Trade. He said Europe should "spearhead" China's accession to the Gatt.

The McDonnell Douglas deal puts even greater pressure on both Boeing and Airbus to

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Stasi amnesty call hits raw nerve in unified Germany

By Judy Dempsey in Berlin

A call at the weekend by German opposition leader, Mr Rudolf Scharping, for partial amnesty for those who co-operated with east Germany's secret police has rubbed against a still-raw wound in unified Germany.

Mr Scharping, leader of the Social Democrats, said it was time to grant some partial amnesty for former Stasi employees on the grounds that it was preventing "inner unification".

However, Chancellor Helmut Kohl's Christian Democrats party immediately dismissed the call.

The party's general secretary, Peter Hintze, told the newspaper Welt am Sonntag: "We owe it to the victims of the wall, barbed wire and Stasi terror that those responsible are not let off."

More than 109,000 people are estimated to have collaborated with the Stasi, one of the most hated and insidious institutions of the communist period.

A law was passed in December 1991 enabling east Germans access to their files. It also allows public and private institutions access to screen employees.

Mr Scharping's plea was supported by Mr Stefan Heym, the east German writer and member of the PDS, the successor to the former east German Communist party. Mr Heym was recently elected to the Bundestag, or lower house.

The CDU's Mr Hintze accused the SPD of trying to rehabilitate the shunned reformed communist Party of Democratic Socialism (PDS), successor to East Berlin's communist party.

"The SPD seems to be helping to make the PDS respectable," he said.

Senior members of the Gauck commission, the institution responsible for supervising the Stasi files, have opposed any amnesty.

"The time has not yet come, either for an amnesty or to close the files," said Mr Hansjörg Geiger, deputy to Mr Joachim Gauck, the former east German Lutheran pastor who heads the commission.

The material remains politically explosive. Prominent east German politicians, including Mr Gregor Gysi, the parliamentary head of the PDS, is alleged to have collaborated with the Stasi but he has vehemently denied any of these allegations.

Opinion among east Germans remains divided about keeping the files open.

Mr Jens Reich, a physicist and member of the former east German opposition, believes the files should be kept open to show the psychological and political nature of totalitarianism as well as the nature of collaboration or resistance under such a system.

But other prominent east Germans, including Mr Friedrich Schorlemmer, a Lutheran theologian who opposed the former communist government, wants the files closed because they impose a permanent burden of guilt on east Germans.

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Shokhin duties handed to fellow reformer

By John Lloyd in Moscow

President Boris Yeltsin of Russia yesterday accepted the resignation of Mr Alexander Shokhin, the deputy prime minister and economics minister, as the shake-up in the government continued over the weekend.

Most of the departing minister's responsibilitias were given to another reformer, Mr Anatoly Chubais, who was promoted to first deputy prime minister from his present post of deputy premier in charge of privatisation. At the same time Mr Victor Chernomyrdin, the prime minister, named as chief negotiator on debt rescheduling Mr Oleg Davydov, the trade minister, who caused concern earlier this year by suggesting that Russia sbould not pay back its dabt.

Mr Chernomyrdin acknowledged that Mr Davydov would take some time to familiarise himself with tbe debt talks, which depend heavily on whether Russia succeeds in making an agreement with the international Monetary Fund. However, he said "Oleg Davydov is a properly qualified" person.

Mr Shokhin had offered his resignation on Friday, after unsuccessfully demanding that he be consulted on naming a new finance minister, and warning that "the economy is now hostage to politics". His comments came as a struggle over policy continued between Mr Chernomyrdin and Mr Yeltsin.

Mr Chubais, 39, has headed Russia's programme to privatise state-run businesses since 1991, which is at the centre of the nation's transition to a free-market economy. As to being one of the last radical reformers left from the team that crafted Russia's basic reforms after the collapse of the Soviet Union, he said "Russia has an all-reformers government".

The new finance minister, Mr Vladimir Panskov, a former official in the presidant's department of budget policy, was quoted as saying that "there is still a lot of work to be done" on the 1995 hudget. His words left open the possibility of changes in the hudget, supposed to reduce monthly inflation to 1 per cent with the aid of substantial borrowing from the international Monetary Fund.

Mr Chubais added to the confusion by saying that the cabinet reshuffles "will certainly not lead to changes in the course of reform the government has been following". Mr Chubais said he would take charge of tbe economy and finance portfolios, making him Mr Panskov's direct boss.

Mr Yeltsin added further to contradictory messages when a close aide said the president was "seriously concerned over the work of the government", while saying there was no division between Mr Yeltsin and Mr Chernomyrdin, and that the president intended to "push reforms quickly and effectively".

Mr Sbokhin has been working on a concept of debt repayment whicb would be linked to the provision of external assistance and to the growtb of the economy.

A Greenpeace environmental campaigner looks at what the gronp claims is a new leak of hurning oil near Usinsk in nortb Russia. The area is the site of a previous large spill resulting from a series of leaks in a pipeline over the past few months Reuter

Cold shoulder for EU from Norway's north

The debate over Union membership has pitted the coast against Oslo and the south, reports Lionel Barber

On the outer edge of the Arctic Circle, an epic struggle is under way which will determine Norway's future in Europe. Opposition to membership of the European Union is an article of faith among the farmers and fishermen on Norway's northern coast, and nobody expects the mood to change ahead the November 28 referendum.

Mr Ivar Jorgensen, a 6ft 5in goat farmer from near Tromso, sums up the anti-EU atmospbere: "John Major is the only one telling the truth. He said the European Union needs the Norway's oil and gas and fish, so get them in."

Between beeps from his mobile phone, Mr Jorgensen ticks off more reasons for opposing EU membership: slack EU environmental standards which allow farmers to use growth hormones on animals; contaminated drinking water; high unemployment; and the Common Agricultural Policy, which, he says, has forced an Irish friend to turn his 40-cow farm into a golf course and a motor cycle track.

"But the main reason is the Viking tradition," says Mr Jorgensen, who would not look out of place in a Norse longboat. "We won't let anyone rule over us."

The referendum campaign has exposed latent political conflicts in Norway. Just as in 1973, when Norwegians narrowly voted against membership of the (then) European Economic Community, the struggle pits tbe coastal peripbery against the Oslo-dominated south, the cossetted fish-and-farm economy against free trade-minded business, and national collective bargaining, built around strong trade unions, against Brussels-based decision-making.

"This is a struggle between traditionalists and modernisers which poses a challenge to the Norwegian model," says Mr Jon Erik Dolvik, head of the Oslo-based Norwegian Institute for Social Science and Research.

The intensity of the No campaign has knocked the Labour coalition government led by Mrs Gro Harlem Brundtland off balance. Mrs Brundtland has fought her way out of tight spots before, but her own party is split on membership.

Polls show the Yes campaign trailing by a solid eight to 10 points, and the people are wary about joining a Union. It was only earfy this century, she points out during an interview in her office, that Norway escaped 600 years of domination by either Denmark or Sweden, and won independence.

The question which the government has so far failed to answer persuasively is what Norway stands to gain from the Union. EU newcomers such as Austria and Finland argued successfully in tbeir referendums that the Union offered security against creeping instability in eastern Europe and Russia.

Sweden, which votes in its own referendum on November 13, can plead a strong case for membership because its business and industry are entrenched in the EU market. By contrast, the Norwegians, rich in oil, gas, and fish, suspect that membership may prove an unequal bargain.

In Tromso Mr John Arst, a grizzled former torpedo boat captain who once headed the Norwegian coast guard, is adamant that Norway risks having its fisheries plundered by the Europeans, despite government claims that it negotiated a watertight agreement on fishing quotas in its accession agreement.

Although Mr Arst voted Yes in 1973 ("I wanted cheaper food and liquor"), be is voting No in 1994. "If the fisb stocks disappear, the coastal communities will disappear," he says.

Mr Helge Gorrissen, who runs two prawn processing plants in the Tromso region, disagrees. A No vote would destroy jobs, forcing companies to move factories to neighbouring Sweden or Finland to take advantage of their favourable EU tariff status. By contrast, a Yes vote would encourage Norwegian business to create hundreds of jobs through the creation of an indigenous fish-processing industry able to export direct to supermarkets in Europe.

Mr Terje Osmudsen, a director of the Kvaerner shipbuilding and engineering group, says a No vote would lead to a steady shift of "knowledge-based" industries to Europe. Like Mrs Brundtland, he rejects the idea that Norway can afford to stick with membership of the European Economic Area – the half-way bouse which offers the benefits of the single market without the political obligations of full EU membership.

"We need to be involved when common rules are agreed in Brussels on investment and standards, and on areas such as the CO_2 energy tax or the selection of EU-funded research programmes," Mr Osmudsen says.

Against this hard-nosed business calculation must be set the sense of superiority which comes naturally to a nation whose high-wage, low-inflation economy is the envy of its Nordic neighbours.

The Norwegian model, with its commitment to open government, equality among women and higb employment, is viewed as infinitely purer tban the behind-closed-door compromises in Brussels. "The European Union is a men's playground," says Mrs Grethe Fossum, a Social Democrat MP who opposes EU entry.

It will require a formidable effort to pull public opinion round to supporting EU membership. The best hope lies in a Swedish Yes on November 13, because it would force Norwegians to confront the prospect of relative isolation among their Nordic neighbours.

A Norwegian No would leave the country country stranded but defiant alongside Iceland (and Liechtenstein) inside the EEA.

Even the independent-minded Mr Arst admits he is uneasy about the future. "If we just had a little more time [to consider EU membership]," he sighs. "It's all being done in such a rush."

Opinion polls sbowing anti-European Union campaigners leading or gaining ground ahead of next Sunday's referendnm on EU membership have alarmed Swedisb leaders, prompting Mr Ingvar Carlsson, tbe prime minister, to warn yesterday of threats to the country's cherished welfare system if there is a No vote, Hugh Carnegy writes from Stockholm.

The Social Democratic prime minister said rejection of EU membership would lead to a jump in interest rates. This would require tougher government measures to control the public finances.

The fnture of the welfare state has become a central issue in the referendum campaign. The No side, driven mainly by dissident Social Democrats, left-wingers and the Environment party, argues that joining the EU will narrow Sweden's freedom to pursne its famously generous system of universal cradle-to-grave welfare benefits, based on high taxes.

Along witb claims that EU membership will undermine Sweden's independence and compromise its military neutrality, the No campaign appears to be holding its own against the combined forces of the Social Democratic leadership, the main opposition parties, industry, tbe trade unions and the main farmers organisation, which all call for a Yes vote.

Althongh one poll last Friday showed the Yes side increasing in strength to lead by 48 to 42 per cent, three other polls showed the No campaign gaining sharply.

The Swedish vote follows the 56.9-43.1 per cent victory for the Yes side in neighbouring Finland's EU referendum on October 16. In Norway, which will vote on November 28, polls continue to show a solid lead for the No camp. Bnt they sbow that if Sweden votes Yes, the gap will narrow sharply. The latest poll at the weekend showed the No lead in such circumstances falling to 41-38.

Meanwhile in Finland yesterday, an unprecedented parliamentary filibuster mounted by EU opponents appeared likely to sncceed in its aim of postponing ratification of Finnish membership until after the Swedish referendum. The parliamentary vote was originally scheduled for Wednesday.

GM opens car plant in Warsaw

By Kevin Dona in London and Christopher Bobinski in Warsaw

General Motors, tbe US carmaker, has begun to assemble cars in Poland in a joint venture with Fabryka Samochodow Osobowych (FSO), the Polish state-owned carmaker.

GM Poland, which is 70 per cent owned by GM and 30 per cent by FSO, is aiming initially to assemble 10,000 cars a year at the Warsaw plant with a workforce of 125 following an investment of aronnd DM30m ($20m)

The FSO plant is also one of several locations in Enrope under investigation by GM for a much more ambitious investment in the prodnction of a new range of small cars.

GM Poland will prodnce initially tbe Opel/Vauxhall Astra small family saloon car in an SKD (semi-knocked-down) kit assembly operation. Painted hodies will be delivered to Warsaw by train from tbe Opel plant at Antwerp, Belgium, along with engines, transmissions and other components from the group's plant at Bochum, Germany.

The Astra, GM's best-selling car worldwide, with sales of 700,000 forecast for 1994, is currently assembled at plants in the UK, Belgium and Germany and at smaller facilities in Hnngary, Turkey and Taiwan.

Mr Jack Smith, GM chief executive, said at the weekend at the opening of the Warsaw plant that GM was also planning to begin Astra prodnction in Brazil, Indonesia, India and Thailand.

The assembly operation in Warsaw is GM's third investment in vehicle production in east Europe following the hnilding of a car plant at Eisenach in eastern Germany, and an engine and small volnme car plant at Szentgotthard in Hungary.

Mr Smith said that "Poland is and will remain a potential for future Opel car and component production."

GM is also committed to examining the prospects for prodncing a replacement vehicle for FSO's outdated Polonez saloon car in Warsaw.

The Warsaw workforce can be increased to 250 for two-shift working and GM said that the operation had tbe flexibility to raise ontput to 33,000 a year with additional investment and employment.

Clashes likely as German coalition partners haggle

By Michael Lindemann in Bonn

The three parties in Germany's new coalition government entered their most difficult session of talks last night to discuss interior and legal issues and a controversial income tax.

In the talks due to continue into the week, the liberal Free Democratic party (FDP) was expected to clash with the Christian Social Union (CSU), the more conservative Bavarian sister party of Chancellor Helmut Kohl's Christian Democratic Union (CDU), over measures to combat crime and on the status of foreigners in Germany.

The FDP, which badly needs to show that it has secured concessions from its coalition partners after its poor result during the recent elections, was also insisting on a list of criteria which could be used to decide when the so-called solidarity surcharge, a 7.5 per cent income tax to raise funds for eastern Germany, could be scrapped. The CDU and CSU have refused to give way to FDP demands for a deadline for removing the tax.

It also remained unclear how the FDP would push through its other demands, including new laws to make it easier for foreigners to receive German nationality, an issue the CSU has said it will not give in on.

However, despite differences among the parties it seems increasingly likely that the talks will avoid decisions on controversial items.

Observers said a broad brush agreement, short on commitments, would help ensure that the coalition could count on all of its 341 deputies in the parliamentary to re-elect Mr Kohl, which is likely to take place on November 15. The coalition has a majority of just 10 seats over the combined opposition.

Some FDP members fear, however, that if the party does not use the present talks to secure its demands it will have even less leverage once Mr Kohl is safely re-elected. The final composition of the cabinet will also only be agreed after the "chancellor vote".

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INTERNATIONAL NEWS DIGEST

Chirac promises Emu referendum

Mr Jacques Chirac, leader of France's governing RPR Gaullist party, said last night thet if he became president he would put French membership of any European monetary union to a referendum. Speaking on television three days after he became the first mainstream French politician to declare formally his candidacy in next spring's election to the Elysée, Mr Chirac said: "I only want France to enjoy the same rights as Britain and Germany, which have already announced their intention to consult their parliaments" on whether to move to a single currency.

France had adopted the Maastricht treaty by referendum and should decide on the final stage of economic and monetary union (Emu) in the same way, Mr Chirac said. However, he suggested that the issue might not arise because he did not believe that there would be sufficient countries economically ready for Emu by the Maastricht treaty's 1997-99 timetable.

Last night Mr Chirac staked out a slightly more sceptical approach about the pace of European integration as well as faster action to hring down France's record 12.7 per cent unemployment rate, as tha main elements distinguishing his policies from those of his fellow Gaullist, Prime Minister Edouard Balladur. The latter is expected to declare his rival candidacy, but not until the new year.

Mr Chirac said he had formalised his candidacy on Friday in order to get the electorate to take more notice of his views. He also confirmed last night thet at a special RPR congress on Saturday he would step down from the post of president that he had held since 1976 in order to focus on his presidential campaign.

An Ifop poll on presidential preferences, conducted later on Friday and puhlished in yesterday's Journal du Dimanche, gave him 15 per cent support compared with 10 per cent a month ago.

The same survey showed his gain came mainly at the expense of Mr Balladur, whose rating fali from 19 to 16 per cent over the same period, while support for Mr Jacques Delors, the outgoing European Commission president, declined only marginally from 20 to 19 per cent. *David Buchan, Paris*

S Africa killing raises fears

The murder at the weekend of South African religious leader Professor Johan Heyns has raised fears that radical elements in South Africa's white right wing may still be active and are now targeting people they regard as traitors to the Afrikaner people. Prof Heyns, a former moderator of the Dutch Reformed Church to which the great majority of the country's 3m Afrikaners belong, was shot dead in his Pretoria home on Saturday night while playing cards with his family. He was regarded as the driving force behind the church's decision in 1989 to reverse its long-standing support for apartheid and brand it a sin.

Political and religious leaders yesterday paid tribute to Prof Heyns's contribution to effecting South Africa's political transformation. "Ha had a major part in preparing the church and the Afrikaner community for change," said Anglican Archbishop Desmond Tutu. *Mark Suzman, Johannesburg*

Bossi calls for change

Mr Umberto Bossi, leader of Italy's federalist Northern League, yesterday warned that the party was prepared to use its power in the ruling coalition to press for political change, once the 1995 budget was approved. "Without courage, the League risks being ground down," he told a League congress. "The moment has come for courageous decisions. Once a regime is installed, its difficult to obtain change."

In a crowd-pleasing speech, aimed as much at reasserting his power within the party as within the government, Mr Bossi sought a mandate from delegates to put the government's record on liberalism and federalism under scrutiny. He also called for tha creation of a new liberal-democratic, federalist alliance, centred on the League and excluding the far-right National Alliance, currently part of the coalition, and the far left. *Andrew Hill, Milan*

Abiola's detention continues

Nigeria's opposition leader, Mr Moshood Abiola, remained in detention over the weekend despite winning an appeal for bail at court on Friday. The military regime gave no explanation for not releasing him in Abuja. Mr Abiola was arrested and charged with treason in June for proclaiming himself president on the anniversary of his victory in a presidential election which was annulled by the army regime. Mrs Kudirat Abiola, his wife, said yesterday she was still confident that he would be released today. According to his doctors, Mr Abiola needs medical treatment only available abroad. "The head of state, Gen Abacha, has said several times that the issue will be decided by the courts and I am sure he will respect the decision," Mrs Abiola said. *Paul Adams, Lagos*

Albania votes on constitution

Albanians voted yesterday on their first post-Communist constitution after decades of Stalinist rule, but opponents of tha proposed charter said power would again be too heavily concentrated in one person. President Sali Berisha, casting his ballot, proclaimed the vote "the greatest day in Albania's history". He has argued the new constitution will help ease the entry of the country into the continent's mainstream.

The Referendum Central Commission said results would not be released until tomorrow night, 48 hours after the polls closed. Opponents contend Mr Berisha would have too much power under the new constitution, which would give him the right to appoint judges and control the government agenda. They argue that approving the constitution is parliament's job, but that Mr Berisha opted for a nationwide referendum because he could not get the two-thirds majority needed for passage. Observers from the European Union and the US were in Albania to monitor the vote. *AP, Tirana*

Venezuelan soldiers on patrol

Thousands of Venezuelan National Guard soldiers today begin 24-hour patrols in the country's big cities to check a wave of violent crime that cannot be controlled by regular police forces alone. The guard, a branch of Venezuela's armed forces, normally does not appear in such force except under special circumstances, such as natural disasters, civilian or military disorders or national elections.

In announcing the new deployment of National Guard patrols, Major General Rafael Montero Revette, minister of defence, said the operation would be in effect until the end of December, and guardsmen would work in co-operation with police forces. "I want to clarify that the intention is not to militarise the cities, but to offer better security to the population." A recent increase in theft and armed robbery comes as Venezuela struggles with a deepening economic recession. Official figures put unemployment at 13.5 per cent for tha third quarter of 1994. *Joseph Mann, Caracas*

Reagan has Alzheimer's

Former US President Ronald Reagan has released a handwritten letter informing Americans that he is suffering from Alzheimer's disease, a progressive neurological disorder involving memory loss and personality change.

Tbe 83-year-old Republican said he and his wife, Nancy, decided to make the news public to "promote greater awareness of this condition" and to "encourage clearer understanding of the individuals and families who are affected by it". No effective drug exists to arrest the mental and physical decline of the condition. Mr Reagan's letter – a moving farewell to Americans from the man know as "the great communicator" – said the disease imposed a heavy hurden on the families of those afflicted. "I only wish there was some way I could spare Nancy from this painful experience," he said. "When the time comes, I am confident that with your belp sbe will face it with faith and courage... I now begin the journey that will lead me to the sunset of my life. I know that for America there will always be a bright dawn ahead." *Nancy Dunne, Washington*

I did it my way, says Carlos Salinas

Law and social security problems are Mexican president's only regrets, says Damian Fraser

With less than a month to go before his six-year term as Mexico's president finishes, Carlos Salinas says he only has two regrets: that be failed to reform tbe country's judicial system and to overhaul its near-bankrupt social security institute.

"I did not have time to carry these reforms out," he said in an interview in Los Pinos, the presidential home. The difficult economic situation, partly a result of tbe delay in passage of the North American Free Trade Agreement, postponed reform of the social security institute, he said.

The murder last year of the Roman Catholic Cardinal of Guadalajara and tbe subsequent presidential election campaign, it is understood, put off planned cbanges to Mexico's notoriously corrupt and inefficient judicial system.

These regrets aside, Mr Salinas asserts that he would not have done anything differently. He defends his pro-market economic policies as having laid the groundwork for austainable growth, and for beginning to rednce Mexico's sharp ineqnalities in income. He argues tbat the rhythm of political reform was determined by the need to achieve consensus across the political parties and avoid instability, but the Angust presidential election was "a victory for democracy".

One of the three declared candidates to head the incipient World Trade Organisation, Mr Salinas has the backing of the US, Canada, and all of Latin America. However, he is reported to have less support than Mr Renato Ruggiero, the European Union candidate, who has heen campaigning more actively than the Mexican president.

Mr Salinas says that before a decision is taken on the leadership of the WTO post, more countries should approve the Uruguay Round deal of trade reforms. "The key question is when will the US Congress ratify the Uruguay Round," he says, with the answer in his view depending on the outcome of the US mid-term elections tomorrow. Anything that puts in douht the Uruguay Round would "open the door to commercial wars, which would be the worse scenario for the end of the 20th century."

Mr Salinas is keeping a careful watcb on the US elections for another reason: US-Mexican relations are expected to come under strain if the state of California approves Proposltion 187, which would deny illegal immigrants non-emergency public services. Mr Salinas reiterated his attack on the proposition, saying it wrongly blamed migratory workers for California's own internal problems, and was "xenophobic". Mexlco's Foreign Ministry is preparing a series of responses in case the referendum is passed, he says.

Discussing his own legacy, Mr Salinas says economic reform was already well advanced when he took office, wbicb enahled him to move rapidly in this area from the moment he was elected president.

Thus his first years in office were characterised by the deht reduction agreement, sweeping privatisations, economlc deregulation, and the decision to negotiate a free trade agreement with the US and Canada.

By contrast, he implies, Mexico's political system had been touched less hy reform when be took over. "Generally in Mexico the electoral structure was arranged, let us say, to guarantee a victory of the PRI," he says. "It would have been very tense" if he had sought to dismantle the old political system faster. What was important was that he "succeeded in introducing political reforms in favour of democracy and pluralism without causing a rupture".

Mr Salinas accepts that electoral and political reform needs to go further. He supports making tbe electoral institute totally independent of the government. It would "not be a bad idea" if the opposition was given control of congressional committees that oversee government spending. Ha claims, in an argument that would not convince members of tbe opposition, that tbere has not previously been a consensus on such reforms.

Commenting on the judiciary and social security problems he failed to tackle, Mr Salinas says it gives him "great pleasure" that Mr Ernesto Zedillo, his hand-picked successor, has pledged to address these issues.

Mr Salinas says social security reform will need to address shortage of funds (the so-called actuary deficit) and separation of the accounts of those enrolled in the institute. Mr Zedillo has sketcbed his approach to judicial reform, which among otber changes, would establish a civil service for judges to encourage professionalism and greater integrity.

While publicly unwilling to admit as much, Mr Salinas is also almost certain to hand over to Mr Zedillo the problem of how to disarm and integrate into society the Zapatista rebels in the state of Chiapas.

Mr Salinas promises be will look for a negotiated settlement in Chiapas until the day he leaves office. But with Zapatistas sbowing no interest in talks with the Salinas government, the chances of success are negligible.

Mexlcn's governing Institutional Revolutlonary party took an important step nver the weekend in promised internal demncratic reforms, when it elected its candidate for the governor's race in the state of Jalisco by secret vote in a convention of local party leaders, Damian Fraser reports from Mexico City.

Mr Eugenio Ruiz Orozco, the senator-elect for the state, won the convention with more than 1,400 of tbe nearly 2,000 delegates present. He was backed by the most important factions within the party, and had been overwhelming favourite to win the nomination.

However, the fact that four other candidates stood against Mr Ruiz in an internal poll of cbosen delegates was considered an advance. In the past, the PRI's candidates for senior elective nffice have usnally been picked in private by the president and a few senior party officials.

Mr Ernesto Zedillo, the incoming president who himself was hand-picked by President Carlns Salinas, has repeatedly pledged not to interfere ln the nomination of the party's candidates, and to promote a democratic selection process.

Wblle there were few reports of anomalies in the vote-countlng at the convention, supporters of the second-placed candidate claimed delegates from the workers' and peasants' sectors bad been under pressure to vote for Mr Ruiz. There had also been complaints that delegate selectinn was hiased in favour nf the winning candidate.

The state election in Jalisco is due in February next year, and is expected to be a tight race between the PRI and centre-right opposition.

Carlos Salinas: careful watch on US elections

Strike changes news habits in San Francisco

By Louise Kehoe in San Francisco

San Franciscans are getting a taste of the future – at least the future as predicted by those who helieve that the daily newspaper is dying.

Last Tuesday night, 2,600 workers at San Francisco's two leading newspapers, the morning Chronicle and the afternoon Examiner, went on strike. Most of their more than 600,000 daily subscribers have been without their daily fill of a local newspaper.

There is no shortage of news. Local radio and TV stations have taken up the cause by expanding their regular news coverage. Striking journalists have made guest appearances on the airwaves to talk about the subjects they normally write about.

Not to be outdone, the management of the Chronicle and Examiner accelerated plans to create an on-line news service this week. The Gate, which combines stories from both papers, was to have been introduced on the Internet, the computer network, later this month. Instead, it made its debut last week.

The strike is a classic labour dispute about pay, working conditions and joh security. It comes after the newspaper's unionised employees have worked for a year without contracts.

Tbe Chronicle and Examiner, although separately owned, are both printed and distributed by the San Francisco Newspaper Agency. The bosses want to streamline distrihution, eliminating 150 drivers and hundreds of "youtb carriers", the boys and girls wbo burl newspapers on to driveways in their neighbourhoods each day.

Employees object to the cuts and are figbting for a pay rise bigger than the 3.5 per cent increase on offer. Privately, they say that the strike has been precipitated hy fears of "union husting".

Resorting to radio is one way around the strike hut, as Mr Herh Caen, the renowned SF Cbronicle columnist puts it, the feeling "isn't the same". "You can't re-read it once, to try to get the meaning, or twice, to look for typos [and] mistakes... In short, it isn't as much fun."

Mr Caen's column appeared in the San Francisco Free Press, a newspaper cobhled together by striking journalists using horrowed computers and telepbones. A bundred thousand copies of tbe Free Press were distrihuted on Friday, the newspaper unions claim.

While distribution of the Free Press was limited, several thousand more readers picked it up via their computers on the Internet.

See Media Futures

Cautious Swiss think big when it comes to choice of gas guzzlers

By Ian Rodger in Zurich

The Swiss love American cars. The Alps are crowded with Cadillacs, Cherokees, Mustangs and other strange beasts rarely seen in nther European countries.

In the first nine months of this year, Chrysler – the most successful of the big three US importers – sold 5,517 vehicles in Switzerland, claiming a 2.5 per cent share of the whole market. General Motors sold 1,774 US imports, and Ford 860.

In each case, these results are vastly better than in other European countries. GM, for example, sells more US cars in tiny Switzerland than lt does in Germany or France. The companies sell scarcely any US models in the UK because they do not make right band drive models.

It all seems at odds with the charming Swiss preference for things small. They like nothing better than to put the diminutive suffix "li" on cherisbed tbings. A child's hand is a Händli; Liechtenstein is a "Ländli". But a Chevroletli?

Ask the Swiss or the car companies themselves tbe reasons fnr tbeir quirky taste for American cars, and a variety of answers emerge. All agree that it ls a long tradition, dating back to before the second world war. "The Swiss have always liked the US as a country to visit," offers Mr Roland Hüsser, sales manager of Chrysler-Jeep Import Switzerland.

"The ties between Switzerland and North America – both fnr families and fnr businesses – are mncb stronger tban in other European countries," claims a General Motors representative.

There are also practical reasons. Switzerland is mountainous. Immediately after tbe war, under-powered Renaults, Fiats and Volkswagen 'beetles' had to struggle over the Alpine passes. Big Oldsmobiles and Bnicks with six litre V8 engines cruised over.

Mnreover, petrol prices in Switzerland have always been relatively lnw, so the gas guzzling didn't matter. Perhaps most lmportant, Switzerland has never had a car industry to protect, so import barriers against American cars are insignificant.

Like many US bnyers, the Swiss went off US cars in the 1980s as their qnality standards sagged. Chrysler pulled ont of the Swiss market completely, returning only in 1988.

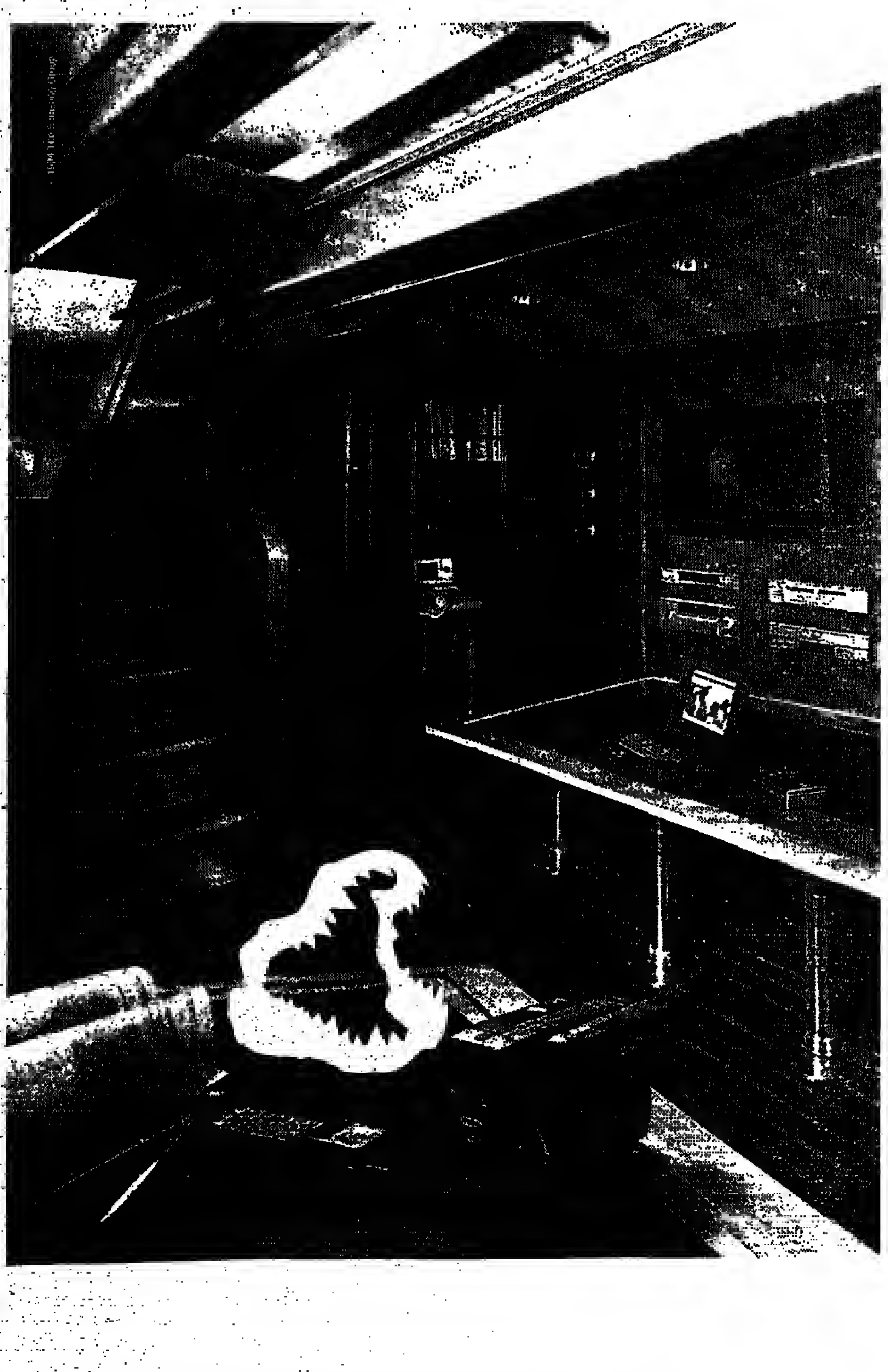
Today, even thongb American cars have become much smaller and more difficult to distinguish from European models, the Swiss bave come back to them. Ironically, this is in part because of the good value they offer, thanks to the rise in the Swiss franc against the dollar in the past two years.

Also, the US companies bad a lead in a couple of the most trendy vehicle types, snch as jeeps and called mnlti-pnrpose vehiclea (MPV). Chrysler's Voyager, GM's Pnntiac TranSport and Ford's Explorer all do well among fashion conscious Swiss.

Mr Hüsser says businessmen and men with large families hny the MPVs, and they like them loaded with options. Cherokee Jeeps are preferred by "well educated males between 40 and 50".

Like nearly everything in Switzerland, US-made vehicles are more expensive than at bome, usually by abont 10 to 15 per cent, according to Mr Hüsser. The differential is rather higher these days because nf the weakness of the dollar against the Swiss franc. As a rule, the companies set prices on the basis of market considerations and do not adjust frequently for exchange rate changes.

There are good reasons for some price differential - mainly having to do witb transport costs and maintaining a dealer network for a relatively small market. But it is a fair bet that the companies dn very well on their Swiss business.



NEWS: THE US GOES TO THE POLLS

Democrats on the very brink of survival

Jurek Martin on politics under fire as campaigning comes to a bitter and negative finale

US MID-TERM ELECTIONS November 5

Even if America were a land veritably flowing with milk and honey, President Bill Clinton and his Democrats would lose seats in tomorrow's congressional elections. This is how it always is when a new president, regardless of party or personality, meets the wall of reaction, protest and downright indifference that characterise his first midterms.

What makes tomorrow important is the prospect of something relatively unusual happening – a change of power in one, or conceivably both, chambers of Congress. This has not happened in the House of Representatives since 1954, when the Democratic hegemony was established, and in the Senate since 1986, when the Democrats ended a brief six year Republican interregnum.

The significance of ancb a change to President Clinton and to the conduct of US policies at home and overseas can be overestimated. Post-war Republican presidents have far more often than not been saddled with a Democratic Congress, yet the country has not always found itself in a state of paralysis. Many Americans believe there is a natural order to the presidency resting with one party and the legislature with the other.

Yet the angry tenor of the campaigns now lurching to a bitter and negative conclusion suggest stirrings in the woodwork far beyond normal political cut-and-thrust.

Cynicism about government itself and those who work in it has reached a pitch that dwarfs rational consideration about what it, and they, should be doing about national problems.

In a sense, it may not matter so much whether Republicans take control of one or the other chamber than that those who inhabit the next Congress, old and new members, Republicans and Democrats alike, may have been so scarred by their confrontation with the electorate that the term "do nothing Congress," so successfully coined by President Harry Truman in the 1948 campaign, may come to be seen as an understatement.

Democratic command of the legislature does hang by a thread. This is most easily discernible in the 35 more visible races, 22 of them defended by Democrats, in the 56-44 Democratic Senate than in all 435 House conteste, where the majority party holds a 256-178 edge, with a lone indapendent (Mr Bernie Sandera of Vermont).

Needing to lose no more than aix seats to retain control, the Democrats seem certain to drop three – Ohio, Maine and Arizona – and are at severe risk in as many as 10 more.

They could afford to lose more than six if there are offsetting gains from Repuhlicans. But local polls, admittedly not always reliable, point to only one realistic chance, in Minnesota. Once hopeful prospects in Delaware, Wyoming and Montana now seem longer shots, though one survey last week in the state of Washington found a surprising surge for Mr Rod Sims, previously running well behind Mr Slade Gorton, the Republican incumhent. Another survey found that Mr James Jeffords, a leading party moderate, was not quite secure in Vermont.

The pundit consensus, for what it is worth, generally hovers around Republican gains of 5-9 seats, either not qnite enough, or just enough. In the event of a 50-50 tie, the presence of Vice-President Al Gore means the Democrats retain command of tbe chamber and its committees, unless Senator Richard Shelby from Alabama, who often votes with Republicans, can be persuaded to switch parties.

It is much harder to get a national handle on the House races, where the Republicans need e 40-seat gain to form a majority in thelr own right. But Congressman Newt Gingrich, certain to be the next Republican leader in the House and, with party control, the next Speaker, is openly talking of forming new alliances. He wants to link witb conservative Democrats from the south and its borders, giving him de facto, if not de jure, command.

The Democrats started with the assumption that tbey could lose 25 seats, greater than the everage post-war loss but not hy much. Mr Gingrich raised the stakes by talking about 40 and more, hefore lowering them somewhat and focusing on ideological majorities.

It does appear that some apparently very endangered Democratic incumbents, many of them in their first terms like Pete Strickland in Ohio and Jane Harman in California, are on the brink of survival. Special interest money also tends to favour sitting members, with one study last week finding incumbents with a 15-1 fundraising advantage in House races. Again, the pundit consensus foresees Repnblican gains of 25-35 seats.

Tbe obvious Republican advantage is derived in part from the fact tbat the midterms always attract a low turn-out – nationally about one-third of eligihle voters. There will be wide variations, depending on the heat generated hy local candidates and issues, but Republicans, more committed if smaller in numbers, seem more motivated to vote.

A recent Washington Post-ABC poll sought to identify likely voters and found them evenly split between the two parties. Earlier surveys had actually found the Republicans ahead, but parity la a plus because, in recent elections, the Democrats have generally enjoyed about an eight point advantage.

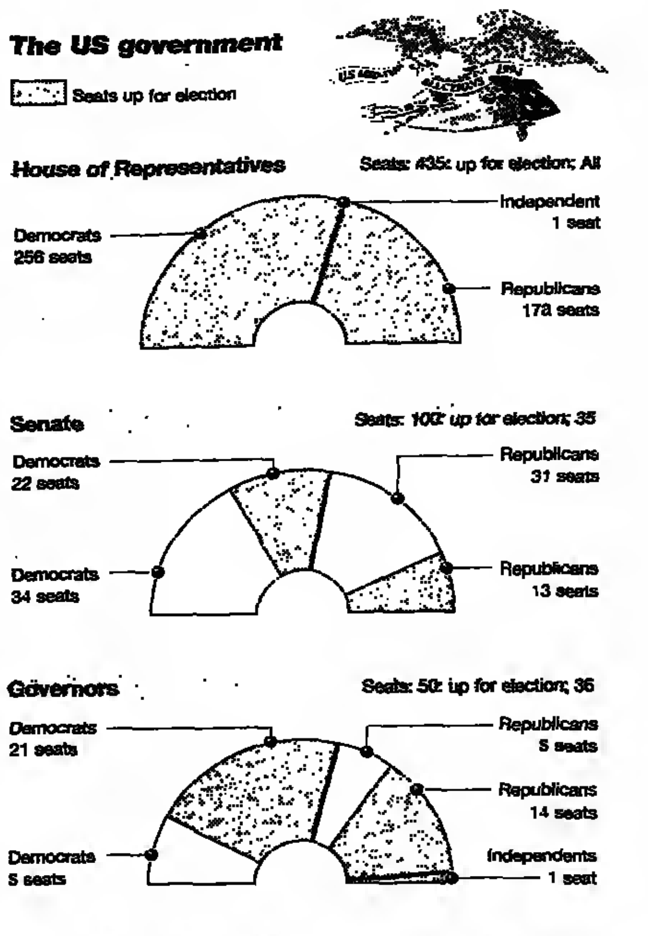
The impact of the religious right may be more visible in individual contests like the Senate races in Virginia and Minnesota than nationally. But tbe Christian Coalition's get-out-the-vote drive, invariably behind conservative candidates and causes, cannot he overlooked. This weekend, for example, it will be distributing across the country no less than 33m "election guides", the contents of which have already drawn fire from liberal quarters.

Yet the sad and indelible memory of virtually all the contested campaigns is that money and negativism have been identified as the keys to electoral success. The California Senate race between Ms Dianne Feinstein, the Democratic incumbent, and Congressman Michael Huffington has already set national records – $30m and counting – for a single contest, most of it from the Repuhlican's own pockets. The Robb-North slugfest in Virginia is not far behind.

It has been hard to find a single campaign in which conventional policy and social issues have been given an airing in the welter of name-calling. Discussion of crime – a hot button subject – invariably is reduced to who would execute murderers first and fastest. Democrats, in particular, bave seemed at a loss to respond, with, perhaps, only Governor Mario Cuomo of New York secure enough in his own opposition to capital punishment not to bend with the prevailing tempest.

The most important ballot issue in any state – the Californian proposition to deny social services to illegal immigrants – is the perfect manifestation of this public discontent and the consequent search for scapegoats. There is no doubt that illegal immigration poses costs and prohlems, but the proposed solution, probably both illegal and unconstitutional, seems motivated by the desire to take matters out of the hands of government, state and federal.

The impact of all this, as personal experience and acres of reportage and polling in tha American media attest, is of a polarised electorate genuinely disgusted with politics in all its manifestations. Yet tomorrow the country votes and, in January, a new Congress, the result of that exercise of the franchise, will take office. Regardless of who runs the legislature, no easy times lie ahead.



Despair or joy for hurricane Newt Gingrich

By Jurek Martin in Washington

Tomorrow could be the greatest day in the political life of Newton Leroy Gingrich, known as Newt. It could also be the night of his greatest disappointment.

In the rosy scenario, he could end it Speaker-presumptive of the House of the Representatives and conceivahly with Republican majorities in both chambers. In the nightmare, he could wind up saddled with the blame for raising Republican expectations too high and for the commission of grievous tactical errora that excited the Democrats sufficiently for them to hold on.

Rarely has a party'a national campaign been so shaped by a single person as has this year's midterm effort by the 51-year-old, Pennsylvania-born radical conservative congressman who has represented Georgia's sixth district, now encompassing the spreading northern suburbs of Atlanta, since 1979.

Other prominent Republicans have done their bit, but many, like Senators Bob Dole of Kansas and even Phil Gramm of Texas, have seemed to have at least half an eye on a still bigger election in 1996 or, schooled in political pragmatism rather than confrontation, wondered if the party was not going too far to the right.

Such ambitions and reservations have never clouded Newt Gingrich's mind. An articulate ideologue by conviction and a guerrilla fighter by nature, he has always seen the Reagan era as one with much unfinished business and the Bush and Clinton presidencies as inconvenient interruptions. A political product of a Congress he professes to despise, he is intent on changing not only its faces but also its collectiva mind.

It was Mr Gingrich who first demanded that the midterm elections be turned not into a series of local battles but first and foremost into a national referendum on the Clinton presidency. Republican candidates beyond number have sought to identify their Democratic opponents with Mr Clinton, often using commercials where a candidate's face metamorphoses into one of the president.

It was Gingrich, too, who in September trotted out more than 300 Republican candidates for the House on to the steps of the Capitol to sign the 10-point "contract with America" – instantly assailed by the wittier Democrats as a mob-style "contract on America".

This committed them to introduce, within 100 days of the convening of the new Congress, legislation to balance the budget by constitutional amendment, to establish the hndget line item veto (empowering a president to eliminate any specific item of spending), to limit the terms served in Congress, to cut taxes, and other items long on the conservative wish-list.

He has never been shy about his purpose or his methods, rarely less so than in an interview with the Washington Post last month encapsulating the logic behind the twin strategies.

"We reached two conclusions about May. One was that we might win a majority... the other that tbe country was going to be so negative about Clinton that if we went es negative as the country was, we would drive down participation because people would be sick of the process. And so we consciously designed the contract around these two observetions."

Dissuading people from voting might seem an odd way to win elections, hut not for a party which normally benefits when the turn-out is low.

Reasonably secure of his own re-election, he has personally visited ebout one third of the House's 435 districts in the last two months, energising Republicans with his own fiery brand of take-no-prisoners oratory.

Not for nothing is he known as Hurricane Newt or his political potion as containing Eye of Newt.

Yet, until the strategic decisions were taken on this campaign and until he led the successful Republican attempt to hlock virtually all that remained of the Clinton legislative programme, he had sometimes co-operated with the White House.

Steeped in opposition and obstruction, he will find tomorrow if he also gets a slice of real power. If he does, his exercise of that authority will make him either Bill Clinton's worst bête noir or his political saviour or both. Newt Gingrich would ask for nothing less.

INTERNATIONAL PRESS REVIEW

Molly a lone voice among doom-sayers

US

By Jurek Martin in Washington

The best antidote to gloom, doom and US media portentousness is called Molly Ivins, the unreconstructed liberal who writes a column when the mood takes her out of Austin, Texas. When California got bot under the collar about illegal immigrants from the south, she wrote that, in ber neck of the woods, no one could find anything wrong with "Messakins", as Texans call them.

She was again outspoken last week in taking the wind out of the sails of the ship of beavy analysis about America's electoral agonies. On learning that the prevailing wisdom is that it is the "cranky voters", not Washington politicians, who are to blame, she wrote that "you could have knocked me over witb Micheel Huffington's brain". The reference was to the Republican candidate for Senate in California.

However, the unsinkable Molly, even at her most deliciously ironic, is a minority with few companions. The comics and cartoonists have had their fun with the likes of Huffington and Oliver North (Republican Senate candidate in Virginia), but most of the rest of the media bave been wringing their hands and often screwing up their noses before making endorsements.

Clearly partisan publications – the Wall Street Journal on the right, the New York Times on the centre-left – have taken editorial satisfaction, respectively, in likely Republican gains generally and the probable re-election of Mario Cuomo as Democratic governor of New York.

There has been some breaking of type – the liberal Los Angeles Times, whlch has made no endorsement in a governor's race since 1970, opting for Republican Pete Wilson in California, and the Washington Post preferring Repuhlican Carol Schwartz over the rehabilitated Marion Barry for mayor.

But Boston's leading newspaper, the Globe, did its dnty and supported Edward Kennedy in glowing terms, finding no evidence of a liberal resting on his laurels. "Kennedy's pece has only quickened, especially in the last two years... for these reasons – his energy, his focus and his ebility – the Globe endorses his re-election."

Still, there is nothing like dislike of a candidate to sbarpen the leader writer's pen. The Cincinnati, Ohio, Enquirer said this of the hapless Joel Hyatt, running for the Senate as a Democrat; he "is only as deep as a fresh coat of furniture wax. Ha comes across like a college student who thinks he can fake it through finals with a charming smile."

The other and of the age scale was also on the mind of tbe Wilmington, Delaware, News Journal, which was relatively unusual in finding good in both its Senate candidates before plumping for the return of William Roth, the 73-year old Republican. It acknowledged the senator had slowed down hut wrote, charitably, that "doesn't mean that we have outlived our usefulness or that we should be thrown on to the scrapheap."

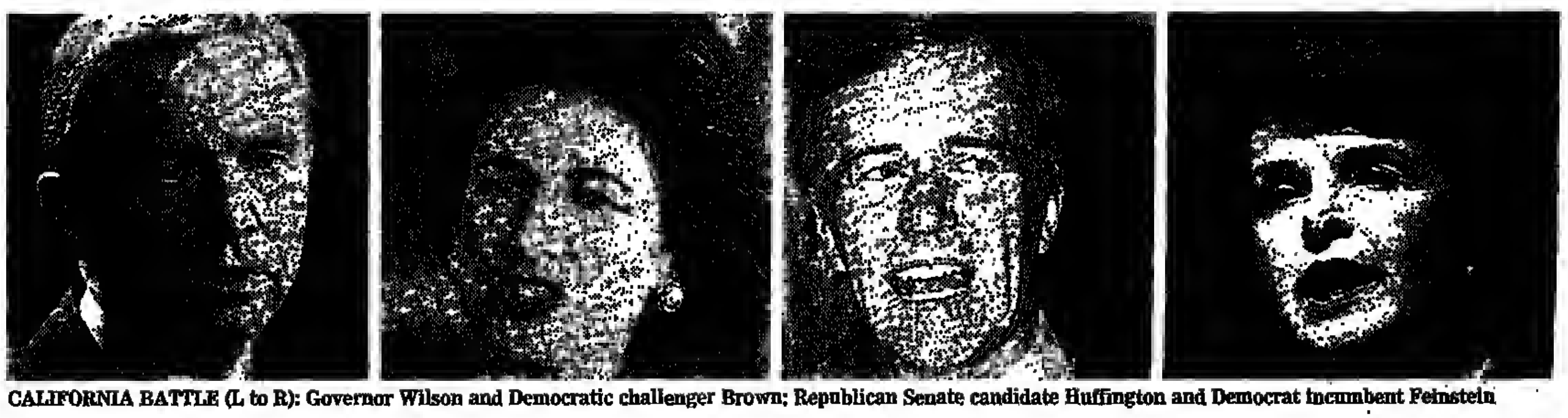
Bnt the Burlington, Vermont, Free Press, turned rather savagely on James Jeffords, one of the most liberal Republicans in the Senate, in endorsing his opponent, Ms Jan Backus. "Now, it's sad to say, he has come to typify what is wrong with Washington: lots of money spent and nothing getting done."

Some newspapers found merit in Washington seniority, bowever. The liberal Bergen, New Jersey, Record, endorsing Senator Frank Lautenberg, the Democrat, wrote "we agree with his philosophy of using the federal government to solve major domestic problems". The view of the Courier Post of Camden, New Jersey, could not bave been more different. "(Chuck the Republican) Haytaian's thrust is right for the '90s. A lot of us are as mad as hell. We want the government off our backs and the sooner the better."

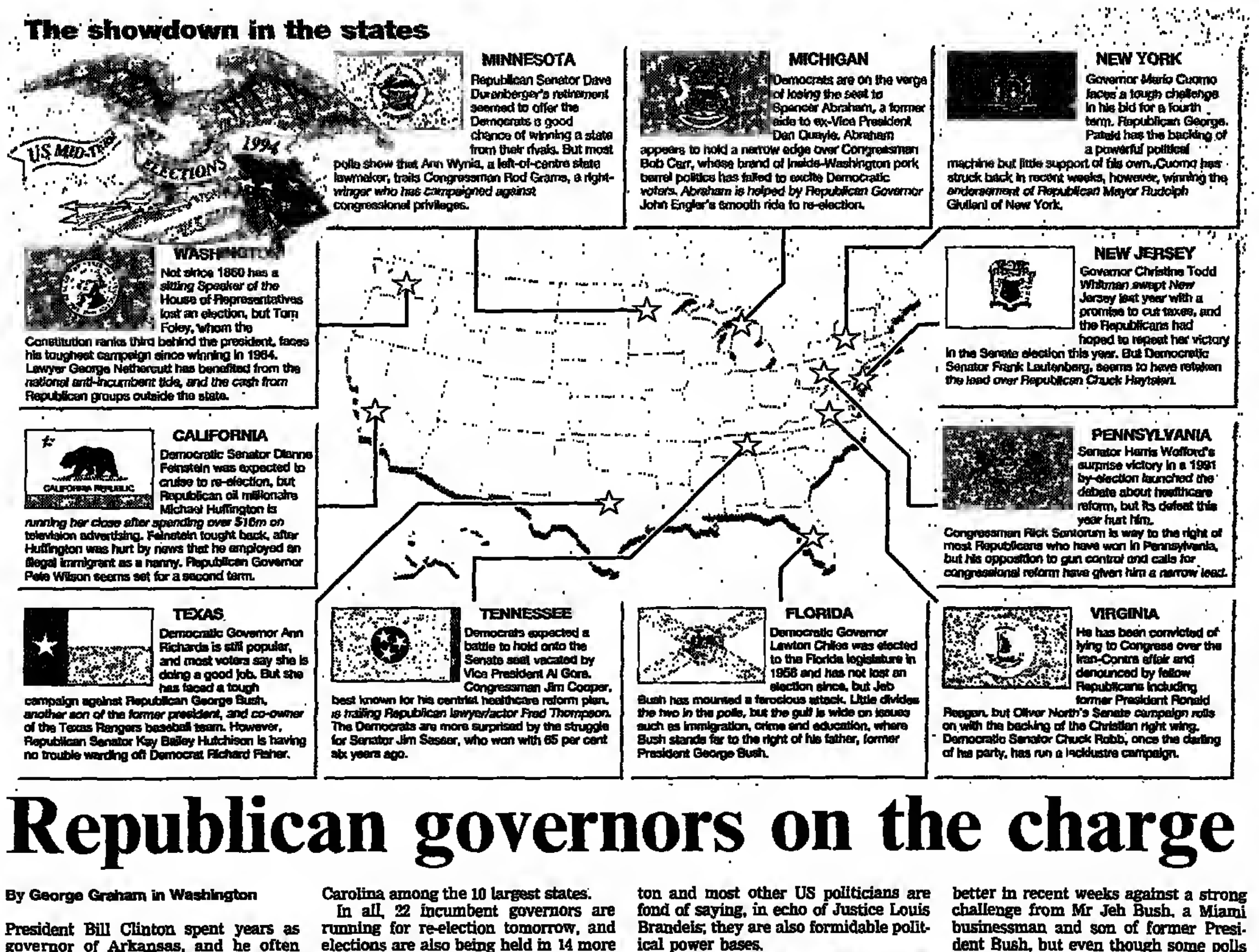
Reflections of this view have been the dominant strain in analytical reportage and punditry. Writing on negative campaigning in the Weshington Post, David Broder, who has rarely seen an election he did not like, wrote "people are looking for enemies... it's that criminal out there, real or symbolic, that people want to run against rather than run against their opponent".

Alhert Hunt of the Wall Street Journal, with views never to be confused with those of his newspaper's leader writers, wrote sadly thet "the one lesson that should be drawn from this dreary experience – the need to make state and congressional campaign financing more like the presidential system with partial public funding – is a non-starter politically."

But the last word on all this lamentation and navel-gazing should be left with Molly Ivins. "What a hunch of cbumps, boobs, saps, dolts, clods, goofs, mutts, jerks, fools and ignorami we all are. I know you're feeling just as ashamed as I am."



CALIFORNIA BATTLE (L to R): Governor Wilson and Democratic challenger Brown; Republican Senate candidate Huffington and Democrat incumbent Feinstein



Republican governors on the charge

By George Graham in Washington

President Bill Clinton spent years as governor of Arkansas, and he often looks happiest when he is discussing policy with his former colleagues in the National Governors Association.

But the club may be a little less friendly after the elections tomorrow, with Republican candidates poised to make a significant dent in the Democrats' long dominance of state politics.

It is not just in the congressional elections thet Democratic incumbents are threatened with dismissal by a disgruntled voting public. Prominent Democrats such as Governor Lawton Chiles in Florida, Governor Ann Richards in Texas and Governor Zell Miller in Georgia are in grave danger of losing their bids for re-election, while Republican Governor Pete Wilson, once a prime target for Democrats, now seems much safer in California.

In New York, Governor Mario Cuomo now seems better placed to win a fourth term in office as his Republican challenger, Mr George Pataki, loses steam. But the Democrats still face the alarming possibility tbat tbey could wake up on Wednesday morning controlling only New York and North Carolina among the 10 largest states.

In all, 22 incumbent governors are running for re-election tomorrow, and elections are also being held in 14 more states, many of which allow only one or two terms as governor.

With the exception of Arizona and Maine, all the states which seem likely to change hands are beld by Democrats. Some pollstera believe the Republicans could end up with more governorships than the Democrats – which they last did in 1970.

Low turnout among Democratic voters is also expected to hring Republican gains in the state legislatures. In the 10 biggest states, Republicans already control six state senates and need to pick up only one more seat to win control in Florida. They trail hy a much bigger margin in the lower state chambers, but seem sure to take over the Michigan House.

And the vote-drawing power of Governors John Engler of Michigan and George Voinovicb of Ohio, both cruising to easy re-election, is expected to provide a strong boost to Republican candidates for open Senate seats in both states.

State governments are not only the "isboratories of democracy", as Mr Clinton and most other US politicians are fond of saying, in echo of Justice Louis Brandeis; they are also formidable political power bases.

Governors can be a president's most potent allies in lobbying their state congressional delegations in favour of legislation.

They could also be a crucial source of strength for presidential candidates in 1996. It is certainly possible to win in any state without the governor's belp – Mr Clinton won California in 1992 despite Governor Wilson's backing for former President George Bush.

But most state governors control their state party machinery, and this can be critical in primaries – as then vice-president George Bush found in New Hampshire in 1988, when Governor John Sununu rescued his candidacy after he had been thrashed by Senator Bob Dole in the Iowa caucus.

All is not yet lost for the Democrats. Besides Mr Cuomo, who trailed his Republican opponent for months hut recently seems to have opened e lead in tha opinion polls of as much as 16 percentage points, Governor Roy Romer of Colorado has also shed earlier worries and established a comfortable margin.

In Florida, Mr Chiles has also fared better in recent weeks against a strong challenge from Mr Jeh Bush, a Miami businessman and son of former President Bush, but even though some polls show him with a wafer-thin lead he is still reckoned to be in the "endangered" category.

So too is Ms Richards in Texas. Her folksy one-liners and general popularity in the state have done nothing to shake off the challenge of Mr George Bush, co-owner of the Texas Rangers baseball team and another son of the former president.

Although national trends atill seem to favour the Repuhlicans, at the local level the individual candidate can still be more important.

In Maine, for example, the Senate seat left open by the retirement of Democratic majority leader George Mitchell appears to be swinging to Republican Congresswoman Olympia Snowe. But in the election for the governorship vacated hy retiring Governor Jock McKernan, Ms Snowe's busband, the Republican candidate is running a distant third; if Democrat Joe Brennan loses, it will be to independent businessman and television presenter Angus King.

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Denying access to trade body could turn Beijing into wild gorilla, official warns

China turns up pressure in Gatt talks

By Tony Walker in Beijing

Denying China access to the General Agreement on Tariffs and Trade could turn the country into a "900lb gorilla" at large in the world trading system, a senior Chinese official warned at the weekend.

Professor Chu Xiangyin, dean of the School of International Trade and Economics, told the official Business Weekly newspaper that it would "do no good for anyone" for China to be excluded from Catt and its successor World Trade Organisation (WTO).

He said large US companies would be hurt by China'e exclusion since their investments would he afforded better protection under Gatt rules. China regards the US as the main stumbling block to its Gatt ambitions.

Statements et the weekend hy the professor and by a senior Chinese trade official indicate a tougher Chinese stance on Gatt accession, coinciding with the last phase of difficult negotiations.

China has been negotiating Gatt issues bilaterally. The Catt working party on China is expected to resume discussions in Geneva later this month for a final push on Beijing's application to rejoin.

Both US end European Union officials say China has "some way to go" before satisfying Gatt market liberalisation requirements. Ma Charlene Barshefsky, an assistant US Trade Representative, said last montb that Beijing needed to "etep on the gas pedal" to become Gatt-consistent in time for the planned birth of the WTO on January 1.

US officials want firmer commitments from China on tariff cuts, phasing out of non-tariff barriers and access for service organisations. The US is also demanding concrete action against widespread abuses of intellectual property rights, including counterfeiting of compact disce and computer software.

One of China'e top Gatt negotiators, called, in a oewspaper interview, for "high-level, strategic support and foresight" from the US over the issue.

"The US should take stock of its medium and long-term commercial benefits in China, not just the short-term ones," he said.

He urged US officials to give what he described as "earnest consideration to three key questions." These were: Is China's Catt accession good for trade liberalisation advocated hy the the Asia-Pacific Economic Co-operation forum (APECI? Is Gatt membership good for promoting China's reforms? and should China be brought within the new multilateral trading syatem from the beginning?"

Ms Wu Yi, China's trede minister, and Mr Mickey Kantor, the US trade representative, are scheduled to meet in Jakarta on November 12 during the Apec forum for what is expected to be crucial discussions on Gatt issues.

World Bank urges urban clean-up

By Tony Walker

The World Bank has urged China to impose user fees to improve urban environmental services and to hit industrial polluters with mucb tougher penaltiee or risk a crisis in towns and cities.

A bank study also reported alarming negligence in tbe handling of hazardous waste, saying there was no adequate monitoring of the storage of 50m tonnes of waste e year. In Urban Environmental Pollution*, the bank said that China "has an urgent need to reorient the provision of urban environmental services toward the market economy".

The release of the study coincides with growing alarm internationally over the environmental costs of China's explosive economic growth. Real gross domestic product growth for the past two years exceeded 13 per cent. The bank identified pollution caused by emerging rural manufacturers – the fastest growing sector of the economy – as a significant threat to China's already overburdened environment.

It noted that in 1980, when the environmental regulatory eyetem was imposed, theee rural enterprises accounted for less than 10 per cent of industrial ouput, but that had jumped hy 1992 to 36.8 per cent and was still growing. The study said it was especielly worrying these often small-to-medium eized enterprises had avoided many of the regulatory restraints that applied to state-owned-enterprisee, and tbe "regulation prohlem can no longer be ignored".

Among other recommendations were that China:

- Increase the financial and social cost of violating environmental standards.
- Enact and enforce hazardous waste legislation.
- Charge tariffs for water supply, waste water treatment and solid waste dieposel that encourage careful use.

The World Bank, in its plea for stiffer penalties to deter widespread flouting of environmental standards, said Chinese companies would have "no economic incentive to improve pollution control efficiency unless the expected cost of violations is raised through substantially higher fines and more frequent monitoring".

The hank urged that draft legislation wbich gives environmental protection bureaux regulatory authority over hazardous wastes should be implemented immediately.

"No agency is responsible for bazardous waste monitoring and, as a result, violations become known only after an accident results in injury or immediate economic loss," the study said.

"In 1991, 2,800 recorded pollution accidents resulted tn nearly 1,900 injuries. But these numbers pale in comparison to the potential damage that could be done to the ambient environment and human bealth hy hazardous waste pollution."

The study identified sewerage and waste water treatment as another huge burden on the etate, resulting in contaminated groundwater and polluted urban surface water across the country.

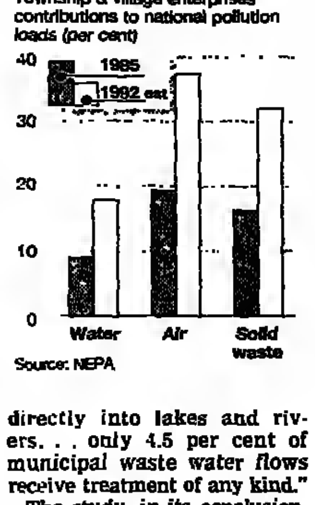
"Nearly 40 per cent of urban China is unserved by sewers, with waste water going directly into lakes and rivers. . . only 4.5 per cent of municipal waste water flows receive treatment of any kind."

The study, in its conclusion, ergued strongly that increasingly affluent urban consumers were "well positioned to absorb both the indirect and direct costs of an improved environment". "While the imposition of user fees may be politically difficult, city leaders must recognise that the. . . current choice to rely on iudirect payments leads to excess demand, on tbe one hand, and an inability to meet needs, on the other."

Urban Environmental Pollution: World Bank, August, 1994.

China

Township & village enterprises contributions to national pollution loads (per cent)



Source: NEPA

Free trade deal near between Turkey, Israel

By Julian Ozanne in Jerusalem

Ms Tanau Çiller, the prime minister of Turkey, said in Jerusalem at the weekend that a free trade agreement between Israel and Turkey, held up by opposition from the Israeli textile industry, would be signed before the end of the year.

She said it would complement other bilateral agreements to prevent double taxation, guarantee and protect investments and to open up the capital markets of the two countries. During her two-day visit to Israel Mc Çiller discussed a range of multi-million projects in telecommunications, energy, water and military co-operation in construction of the F-16 Phantom fighter jet.

In Gaza Ms Çiller promised to help finance Palestinian projects including the construction of housing, a port and international airport. Turkey has promised the Palestinian self-rule authority a $50m (£30.4m) package of project credits and a $2m grant.

Ms Ciller's visit was marred, however, by political controversy after she visited Orient Houae, the Palestinian headquarters in Israeli-occupied Arab East Jerusalem. The Israeli cabinet yesterday criticised the visit and the barring by Palestinian security men of Israeli bodyguards accompanying Ms Çiller. Palestinians claimed the visit had bolstered their claims to Jerusalem as the future capital of a Palestinian state.

Ms Ciller's visit, the first to Israel by a prime minister of predominantly Moslem Turkey, is expected to strengthen growing economic ties between the two states and boost moves towards regional integration.

Israeli tourism to Turkey has more than douhled this year. In the first nine months about 250,000 Israelis visited Turkey compared with 110,000 for the whole of 1993. Turkey, Israel and Egypt have joined together to promote tourism in the Eastern Mediterranean Tourist Association.

The volume of trade has also increased from $93m In 1992 to $226m last year. Officials said Israel-Turkey trade had considerably expanded in the first nine months of 1994 although no figures were available.

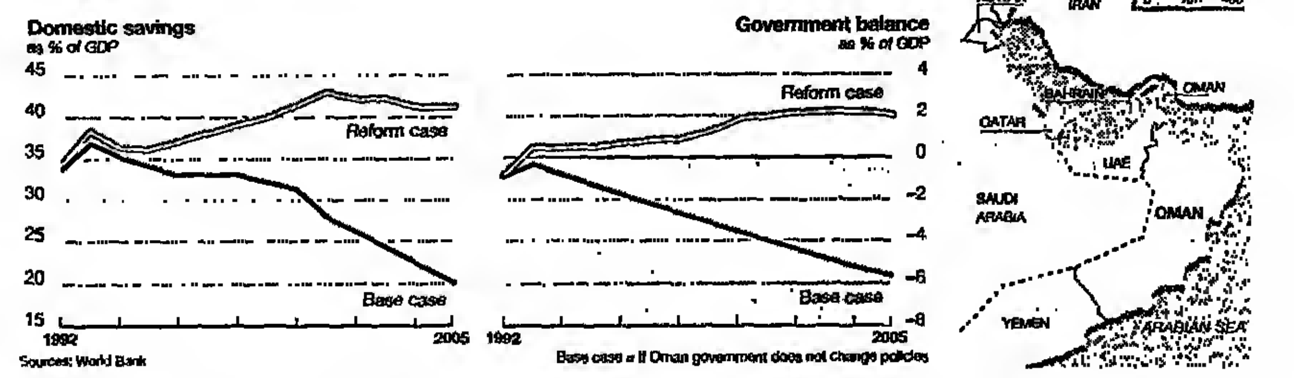
Ms Çiller signed agreements pledging Israel and Turkey to integration in a regional communications system based on fibre optics and to linking electricity grids. Ms Çiller also discussed a deal between the Turkish and Israeli defence industries worth several hundred million dollars for Israel to supply avionics for Turkey's F-16 production line.

The two countries discussed a long-term project for Turkey to export its surplus water to the region which drains into the Mediterranean.

Ms Ciller also said her government was firmly committed to the "new Middle East" and a future Middle East common market and pledged to participate in and finance the Middle East development bank agreed in Casablanca last week. Mr Yitzhak Rabin, Israeli prime minister, said Turkey conld serve as a bridge between Israel and the Arah and Moslem world.

In Cairo yesterday, where Ms Çiller continued ber tour, Egyptian prime Minister Atef Sedki said Egypt hoped to strengthen existing co-operation with Turkey and extend trade worth about $350m annually. He said oil and gas were the two main areas for increased co-operation.

Oman



Source: World Bank

Base case = If Oman government does not change policies

Oman warned: cut spending or face economic upheaval

World Bank spells out harsh realities, writes Robin Allen

The financial policies heing pursued by Oman, whose political and economic stability is vital for the west's oil supplies coming from the Gulf through the Strait of Hormuz, are unsustainable, the World Bank warns in a recent study.

Many of Oman's underlying etructural economic weaknesses are shared by its neighbours and partners in the Gulf Co-operation Council (GCC): Bahrain, Qatar, Saudi Arabia, Kuwait and the UAE. While the last three, which hold 40 per cent of the world's known oil reserves, are not faced with the same immediate and critical choices as Oman, thanks to their larger "cushion" of capital derived from their far greater oil reserves, all six share the same type of hereditary and autocratic monarchical government systems. Instability in one could quickly spread to one or more of tbe others.

The bank ie particularly severe on the scale of Oman'e repeated budget deficits, current expenditure trends and the decline in investment, all of which feature – sometimes to a chronic extent – in the other five CCC countries. If these and other problems are not corrected, and the reforms proposed ignored, Oman ia heading for a "a major economic and social upheaval" as the oil and gas era comes to an end and Omanis are "forced to give up accustomed standards of consumption".

Researched by a team of five in January and February 1993, the 224-page report was completed at the end of last May and subsequently made public "in accordance with the World Bank's policy on disclosure".

The report amounts to a ewingeing indictment of the Omani government's management of the ecooomy, particularly over the last to years, when many key ministers have held the same jobs. The bank's analysis also represents a comprehensive rebuke to officials at all levels who have developed the "plausible and positive platitude" almost to a fine art form, even when confronted with unpleasant realities.

"Oman's oil and gas wealth, being depletable, is analogous to a large inheritance . . . Oman, like most neighbouring oil and gas producers, is currently spending an excessive proportion of the proceeds of extraction on current consumption. In other words it is consuming its capital at a rapid rate," the bank says.

> Even now the government has made only a partial adjustment to stagnation in its oil revenues

The main problems identified by the bank Include:

- A persistent top-heavy government role in the economy;
- State budgets over-stretched by hloated recurrent expenditures, notably on defence and internal security (among the highest in the world with an average 33 per cent of budget expenditure for the last 14 years and now 23 per cent of CDP), and civil service salaries;
- Persistent and rising government-encouraged public consumption trends and a lack of domestic public savings;
- The lack of a consistent foreign and domestic investment strategy for wben oil reserves taper off;
- An overvalued real exchange rate in relation to what would be consistent witb higher (and more desirable) national savings rates;
- Failure of efforts to diversify into manufacturing and otber non-oil industriee because of current public expenditure/savings policies;
- Misuse of the state's reserve and contingency funds;
- Lack of appropriate tax structure and rates and realistic charges for public services;
- Ill-conceived notions about the role and cost of expatriate labour, and the consequent market distortions caused by government efforts to force private sector companies to employ nationals at uneconomic rates;
- Failure to alert Omanis to the reality of the country'e fiscal position, to the inadequate rate of saving, and to their own unrealistic consumption and employment expectations;
- Bureaucratic inertia and lack of financial discipline by ministers over their own budget allocations;
- The absence of healthy competition in the private sector caused by entrenched monopolistic habits in the public and private sectors;
- Out-of-date and cumbersome legal frameworks;
- Lack of a self-sustaining private sector and an investment framework to attract foreign capital;
- Lack of a role for private banks in medium- and long-term financing;
- Too great an emphasis on higher education at the expense of primary and secondary schooling;
- Need for more entrepreneurial, competitive and less "rent-seeking" (cash income for no effort and minimal risk) attitudes among nationals.

For each of the main problem areas, the bank sets out two sets of scenarios: a "base case", assuming neither big chenges in government policies nor unforeseen external shocks; and a "reform case", where the bank's detailed proposals to reverse the deficit trend are acted on. Some of the assumptions under the reform scenario could be faulted for being too optimistic, but even the most optimistic "base case" models give cause for gloom.

Observers say tbe growing incidence of some of these structural economic weaknesses, and the concomitant political risks which the governments of Oman and Saudi Arabia were courting hy ignoring them, had a lot to do with protests which led to arrests of extremists last summer.

Although oil prices have recovered from the lows of 1986 and 1988, they have remained, apart from a brief period during the latest Gulf war, below $18 a barrel, the bank points out. "Even now, the (Omani) government bas made only a partial expenditure adjustment to the etagnation in its oil revenues. In consequence, its financial position has deteriorated and continues to do so."

This, the report says, "is apparent in an almost unbroken string of deficits since 1981 (an annual average deficit of $871m or 23.4 per cent annually over budget revenue during the 11-year period); declining contributions to the State General Reserve Fund (SGRF); a substantial rise in external deht; increased recourse to borrowing from the domestic private sector; a massive, recent accumulation of negative changes in the governmeot's accounts; and the virtual disappearance of net government financial reserves.

The deficits have been the result of an exceptionally high level of defence and national security expenditures, coupled with continued strong growth in civil recurrent expenditures. The use of the SCRF as an oil revenue stabilisation fund has pre-empted its potential as a vehicle for long-term public savings and investment.

World Bank Report No 12199-OM. "Sultanate of Oman: Sustainable Growth and Economic Diversification"

CONTRACTS & TENDERS

Chancellor plans deep cuts in public spending

By Kevin Brown, Political Correspondent

The British cabinet will seek to head off right-wing anger about the Post Office debacle by endorsing deep cuts in public spending at a special meeting tomorrow.

Mr Kenneth Clarke, the chancellor, is expected to put forward plans for a reduction of between £4bn and £5bn in the government's control total for 1995/96.

A second cabinet meeting has been scheduled for Thursday in case agreement proves difficult.

Senior ministers believe that the cuts will go some way towards mollifying right-wing backbenchers angered by the cabinet's decision to postpone Post Office privetisation because of opposition from a group of mainly left-wing rebels.

Right-wing backbenchers have demanded cuts of up to £7bn to pave the way for tax cuts next year, which many believe are essential if the Conservatives are to win the next general election.

The case for deep cuts in nominal spending has also been strengthened by an unexpectedly rapid fall in underlying inflation, excluding mortgage interest payments, since Mr Clarke's last budget in November 1993.

The budget forecast underlying inflation of 3.25 per cent in the current quarter. Instead, it fell to a 27 year low of 2 per cent in September, and has been below 3 per cent for 12 months. As a result, Mr Clarke will be able to tell the cabinet that deep cuts in nominal spending are essential to maintain the confidence of the financial markets in the government's continuing commitment to sound public finances.

Goldman Sachs, the US-owned merchant bank, has calculated that the chancellor must cut the 1995/96 control total, which excludes some recession-related social security spending, by £5bn merely to prevent spending rising in real terms.

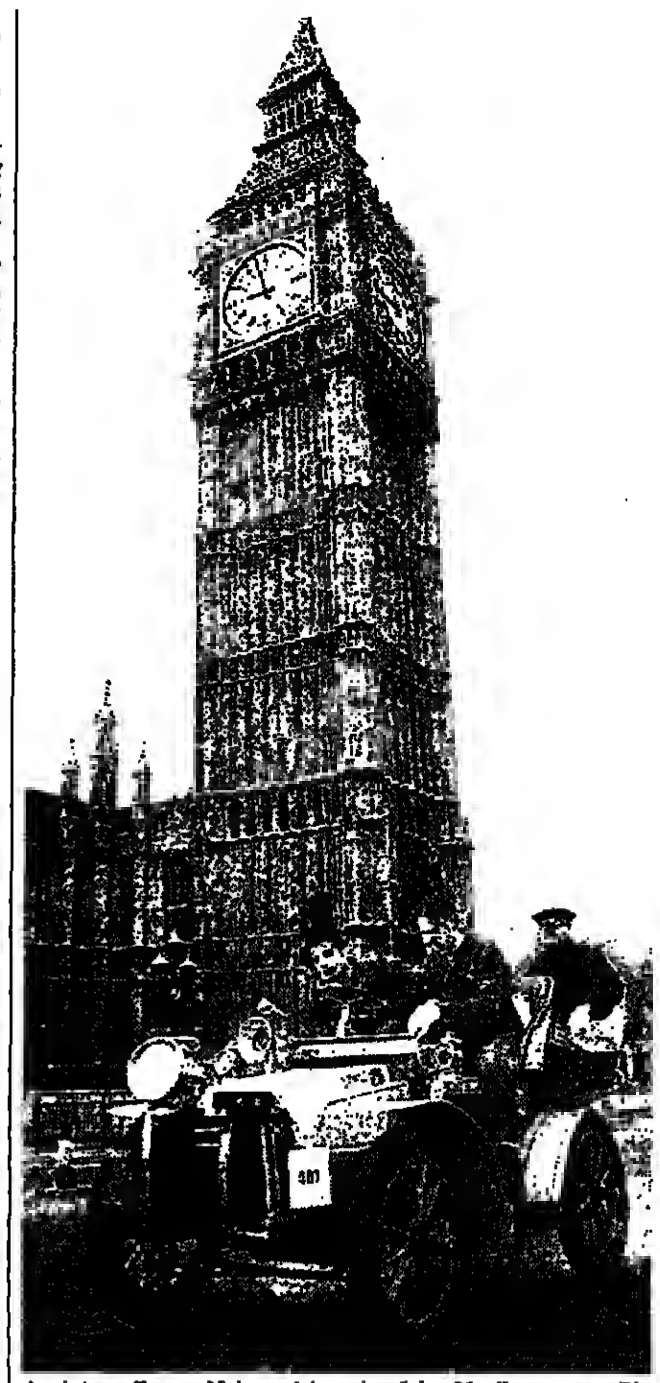
General government expenditure, which includes unemployment and other social security benefits, will also fall sharply because of the decline in unemployment caused by the stronger than expected economic recovery.

Mr Jonathan Aitken, the Treasury chief secretary, is believed to have encountered fewer difficulties than usual in the annual round of public spending negotiations with ministers.

However, Mr Peter Lilley, social security secretary, has resisted pressure for big cuts in the £8.8bn housing benefit budget, which he believes would have to be restructured to yield major savings.

Some senior Tories are pressing the chancellor to cut taxes on the poor, especially pensioners, to offset the impact of £5bn in fresh taxes on fuel and services announced last year to take effect in April.

Others are pressing the chancellor to announce tax cuts in a special mini-budget next spring, rather than waiting until November. Mr Clarke has said he will not cut taxes until it is prudent to do so.



A vintage Turner-Meisse, driven by John Mueller, passes Big Ben during yesterday's annual London to Brighton car rally. Over 400 cars took part in the run, which is held to celebrate the abolition of the 2 miles per hour speed limit in 1896

UK NEWS DIGEST

Arms-to-Iraq inquiry probes Saudi contracts

Sir Richard Scott is investigating defence contracts linked to the controversial Al-Yamamah defence package with Saudi Arabia as part of his arms-to-Iraq inquiry.

Among the contacts with Saudi Arabia being examined is one involving a British defence company. Whitehall documents made available to the inquiry show that a contract with the company for the supply of shells may have been rerouted to Iraq in breach of official government guidelines.

However the judge's efforts to establish whether Saudi Arabia was being used as a diversionary route is believed to have been hampered by the lack of conclusive evidence among thousands of Whitehall documents which have been made available to him.

Earlier this year it emerged that Saudi Arabia was under no obligation to give details of the end-users of defence equipment supplied by the UK under the Al-Yamamah deal.

Mr Jonathan Aitken, then defence procurement minister, said in reply to a written parliamentary question that defence exports under the deal had "Crown status", in common with all government defence exports and were "therefore not subject to export licensing requirements."

The first and only part so far of the judge's final report to be completed is one covering the UK's Export Control System which the judge considers questionable both in terms of government efficiency and democratic accountability.

Small travel agents combine

More than 600 independent travel agents are today adopting a common brand, making them the UK's second largest grouping of travel retailers after Lunn Poly.

Tha retailers, all members of the National Association of Independent Travel Agents, will display the brand Advantage Travel Centres alongside their existing names. A telephone line has been set up to direct consumers to their nearest Advantage Travel Centre.

The move follows concern among smaller companies over tha growth of large travel retailers and their links with leading tour operators.

The two largest travel retailers, Lunn Poly and Going Places, are respectively owned by the two leading tour operators, Thomson and Airtours. Lunn Poly has 742 shops and Going places has 562. Thomas Cook, the third largest travel chain with 385 shops, has financial links with First Choice, the third biggest tour operator.

The Office of Fair Trading said last August that the links between large tour operators and travel agents did not restrict consumer choice or prevent smaller companies from selling holidays. Small travel agents argue, however, that it is difficult for them to match the advertising budgets of large companies.

Plan for airport links

BAA, operator of Heathrow airport, hopes to encourage the creation of additional railway links with Britain's busiest airport.

It will announce tomorrow that it is to spend £500,000 on a feasibility study to look at ways at linking the airport with the UK regions.

BAA has no plans to finance the construction of further rail links or to own and operate them itself but it wants to encourage Railtrack and the train operating companies to do so.

BAA has already mada a large contribution to the £300m cost of building the Heathrow express link with London's Paddington station.

South West Trains, the train operating company which provides services from London Waterloo to Southampton and Portsmouth, has said it is keen to open a direct link from Waterloo to Heathrow. This would require only a short link between existing lines and the airport.

Trade mission targets India

The biggest trade mission ever held by British business leaders will visit India next weekend in a bid to boost links between the two countries.

More than 150 businessmen and women will fly to India next Sunday for a five-day tour led by Mr Richard Needham, the Trade minister.

"The UK has close ties with India so it is important that we take advantage of this huge emerging market," said a Department of Trade and Industry spokesman.

Industry 'on verge of healthy growth'

By Philip Coggan, Rod Oram and Alan Pike,

UK manufacturing industry, battered by contraction and plant closures during the 1980s, may be on the verge of its strongest period of growth for 30 years.

Forecasts by the London Business School predict that manufacturing output will rise by 4.5 per cent this year and 5.6 per cent in 1995.

Manufacturing production over the five-year period from 1994 to 1998 will, according to the school, show an average annual increase of 4.3 per cent. If achieved, this would make it the best five-year period of industrial growth since 1964-68.

London Business School says changes on the supply side of the economy meant that problems once dubbed the "British disease" – low productivity growth, poor industrial relations and a declining share of world trade – were "a thing of the past." Improvements in these areas, combined with shifts towards investment and export-led growth and a lower exchange rate, were reasons for expecting that manufacturing industry would perform well in the years ahead.

The view that the overall recovery in the UK economy remains strong is supported by Mr Alan Davies, chief economist of Barclays Bank, in the bank's quarterly economic review today.

London Business School predicts that a slowdown in domestic consumption growth, in the face of higher taxes and interest rates, will slow overall UK economic growth to 2.5 per cent next year, from 3.5 per cent in 1994. Gross domestic product will grow at rates between 2.4 per cent and 2.8 per cent during the 1996-98 period.

● Weaker levels of new car sales slowed down UK consumer credit growth in September, a report by the Finance & Leasing Association shows today.

Finance for new cars fell by 2 per cent in September on a year on year basis to £333m, and by 56 per cent on a month on month basis. The same factor is likely to affect next month's consumer credit figures – the Society of Motor Manufacturers and Traders said on Friday that new car registrations fell by 3 per cent last month compared with October, 1993, with a reduction in sales to private buyers the main factor behind the drop.

Total consumer credit in September nonetheless increased by 24 per cent year on year to £1.55bn, although rises of more than 30 per cent were experienced in the first half of this year.

Business leaders back stronger single market

By Paul Cheeseright

Senior British business leaders yesterday came out strongly in favour of a European Union built on the disciplines of the single market.

They dismissed out of hand the suggestion floated by Mr Norman Lamont, the former Chancellor of the Exchequer, at the Conservative party conference, that the UK could withdraw from the EU.

Results of a survey of more than 200 chief executives and company chairmen, published at the annual conference of the Confederation of British Industry in Birmingham, constituted a sharp rebuff to the Eurosceptic elements of the Conservative party.

The survey showed that 58 per cent of the business leaders supported an EU based on the single market, with freedom for members states to adopt other common policies according to their circumstances.

A further 29 per cent went further than that, wanting member states to set common policy objectives but to retain their flexibility about the timing of adoption.

On monetary union, anathema to Conservative opponents of the EU, Mr Davies said the poll showed that business "is comfortable about economic and monetary union as long as it is properly planned."

For 56 per cent of the business leaders a single currency is a long term help, but not a necessity, while for 28 per cent a single currency is a necessary condition for the successful working of the Single Market in the long term. While the CBI has been seeking to stiffen the European sinews of the UK government, the business leaders made clear that they are not obtaining the full benefits of the single market.

They want more deregulation and less interference in competition from state subsidies. They want the single market extended to energy and telecommunications sectors and urge reform of the common agricultural policy.

British companies are not investing enough and many need to "raise their standards", according to a report by the CBI's National Manufacturing Council.

Productivity has risen 3.6 per cent over the past year and manufacturing is up by 3 per cent – but the improvements are not good enough, the CBI warned, saying it was "crucial" that firms continued the drive to match foreign competitors.

Problems included lower workplace skills than overseas and "sluggish" investment. "We need more investment in our plants and in our people. We have to teach people how fast the world is moving on," said Mr Tony Hales, chairman of the council.

Computer tax returns signal end of bad form

By Jim Kelly, Accountancy Correspondent

For almost as long as tax has been paid it has been accompanied by the dreaded tax form. Today, that link could be broken forever with the introduction by the Inland Revenue of its Electronic Lodgement System (ELS).

A sample group of up to 1,000 UK companies will have their corporation tax returns filad directly to the Inland Revenue by computer link. The scheme aims to replace costly letters and telephone calls and to bring closer the goal of direct filing from accountants, companies and home-based personal computers.

If the pilot exercise succeeds, a national system of electronic filing may be available for all the 1m corporation tax returns made in a year.

In 1996 the Revenue plans to try the system on its new self-assessment personal tax forms. Up to 5m tax payers may be using ELS through accountants by 2001.

ELS will link the computer systems of taxpayers' agents, normally accountants, with those of tax collectors at the revenue.

The savings in the long-term should be huge. Ian Barlow, tax partner at KPMG Peat Marwick, estimates that it costs £15 e year to just store an average tax file in a filing cabinet for e year. The likely savings potential at the revenue, which dealt last year with 30m returns from individuals and companies, could be huge.

Until later this month, when changes are expected to be announced in the Budget, a duplicate paper tax process must run in tandem with ELS. Later that may go - but the need for a signed authorisation from the taxpayer may persist.

Joining the system is also proving expensive. While the revenue is paying for most of the transmission costs the Big Six accountancy firms are aware that while the capital costs of starting up may be slim, the investment in time is considerabla.

In New Zealand, where electronic lodgement has been launched, 80 per cent of taxpayers get refunds within 14 days when using an ELS system. Paper returns earn refunds in two to three months. The UK system will not contain the same rewards.

The revenue envisages that some tax payers may one day file their returns from home but others will transfer the information to a disk and take it to an agent – or even to a central "tax shop" or service point in a Post Office.

But for the revenue – and the taxpayar – the prize is likely to be increased accuracy in tax returns and a radical reduction in tha time spent on putting right errors in handwritten forms.

The telecoms company's transformation has taken its toll on employee morale, says **David Goodhart**

Bad connections at BT

British Telecom's staff magazine – *BT Today* – is known inside the organisation as BT Toady. It therefore came as a surprise to many employees when the latest issue carried a devastating account of how attempts to improve customer service in one corner of the organisation were failing badly.

The letter, from a senior technician in Worldwide Networks, was unsigned, but its basic message was simple. Despite the organisational upheavals of the past few years customers were still fleeing to the competition because of poor quality.

They were doing this because basically sound ideas, such as multi-skilling and performance targets, were being implemented in a short-termist and counter-productive way by managers either too remote or too frightened to tell the truth.

Sir Iain Vallance, the BT chairman, to whom the letter was sent, praised it as "intelligent, articulate, to the point and just what we wanted from Total Quality Management". He regretted, however, that the engineer had remained anonymous, while the staff magazine asked "how can we overcome the culture of fear?".

The letter – which was only published after considerable internal debate – is a sign that some of BT's senior managers are becoming concerned about employee morale inside Europe's most profitable company.

There is much in the 10 years since privatisation for those managers to feel satisfied about, particularly bearing in mind the introverted, civil service mentality which still prevailed at the start of the period. The customer now receives an incomparably better service at a lower price. The returns to shareholders have been impressive.

Some of those gains have been bought at the expense of employees. The company has shed one-third of its UK employees - from 232,000 to 148,000 - since 1990. Those that remain work harder in a less secure organisation and their unions no longer have quasi-veto power over management decisions.

But even for employees things could be a lot worse. Pay and conditions, especially for middle managers, are still well above average for equivalent skills and experience. And thanks to the generous redundancy terms accompanying the job cuts not a day has been lost in industrial action, a remarkable record for a highly-unionised company.

The way that blue-chip BT has handled its employee relations in recent years is often regarded as a model by its peers. Mike Bett, the former head of personnel and deputy chairman of the company, has just been elected president of the Institute of Personnel and Development, Britain's main personnel body.

But as BT braces itself for the next 10 years of life in the private sector – a period which will be incomparably tougher than the first 10 thanks to competition and the new regulatory framework – cracks are beginning to appear in the shiny self-image of employee relations successfully reformed.

At the normally placid employee annual meeting earlier this year Michael Hepher, BT's managing director, was almost assaulted as tempers boiled over. Hepher says that much of the anger was due to the uncertainty surrounding a disposal of part of the business which was resolved soon after.

That is only part of the story. Almost all speakers complained about job insecurity but they also complained about lack of trust, excessive use of outside contractors, "flavour of the month" organisational reforms, the disappearance of pride in working for BT. A young graduate entrant said that most of her peers were already looking for new jobs and the company was finding it hard to fill graduate vacancies in some parts of the country.

Internal BT surveys suggest that only around one fifth of employees believe that senior managers can be relied upon to do what they say they will do. A similarly low proportion believe that the changes going on inside the company are good for them and even fewer believe that they have job security.

A survey by the National Communications Union, the main BT union, found employees in customer service centres strongly commited to delivering a service to the customer, but a large majority no longer felt any commitment to working for BT.

Such attitudes are also common among the 70,000 engineers, who were hit by the first big wave of redundancies. A recent dispute over more customer-friendly working hours for engineers seemed to illustrate not opposition to the changes but mistrust of how local managers would implement them.

Many of these attitude problems are unavoidable when a once paternalistic company such as BT has to cut both its numbers and its cost base so rapidly. But BT managers are now beginning to wonder how to prevent poor morale affecting business in an organisation where a large proportion of employees have daily contact with customers.

The job reduction programme is at the root of many morale problems. BT is still committed to voluntary redundancy, and has paid a high price for that commitment. Redundancy pay – which averages about £35,000 – has cost £2bn over the past two years, but there are other costs associated with the commitment including re-training the nearly 3,500 people currently being redeployed and even paying a few dozen people to sit at home on full pay. "We can afford to be generous as long as we remain successful," says Hepher.

Nonetheless many people – especially, at present, those in middle management – apparently feel that voluntary redundancy exists only in name, and that the insecurity will never end. Once the current target of a 100,000-employee company is reached, people fear that the next target will be 50,000, and with the introduction of intelligent networks they may be right.

Hepher can offer little comfort. "Our biggest problem is those who have not volunteered and who fear that one day we will have to move to compulsory redundancies...that fear is entirely logical," he says.

Some believe the commitment to voluntary redundancy has sent a confusing signal to employees. On the one hand, they point out, BT seems to be saying it is still the paternalistic employer which can guarantee a job, on the other hand people such as Hepher spend much of their time saying that era has gone forever.

Hepher says that voluntarism is not set in stone but is still compatible with what the company needs to achieve. Many people believe that Hepher, who came from outside BT three years ago, would like to scrap it but finds Sir Iain standing in his way.

Outside consultants suggest that voluntarism has made it more difficult to weed out poor performers. "BT has lost some of its best people because of the way the system works, and it is left with an unusually wide range of people from extremely good to surprisingly dim," said one.

Outsiders also complain about how much management time the redundancy system consumes and how politicised it is. A few people have been targeted for redundancy on the basis of their appearance or how they write reports. One marketing manager achieved sales 50 per cent higher than target last year and received a large pay bonus, but then found herself on a list of people to go.

But the cause of dissatisfaction is not only job cuts. According to Jeannie Drake, deputy general-secretary of the NCU, it is also the insensitive way the company is being restructured for those left behind.

The unions accept that job cuts through technology and competition are unavoidable and believe that they have played an important role in delivering orderly shrinkage, despite their reduced influence at local level.

A degree of corporatism still lives on at national level – the recent dispute over flexible working was, for example, finally resolved in a private chat between Hepher and Tony Young, leader of tha NCU – and Hepher, who had never before worked with unions, is full of praise for their trustworthiness and rationality.

But the unions complain angrily about some of the new managers who they claim cannot consult at all or whose idea of communication is to inform engineers repeatedly that they are very expensive compared with contractors (which is true).

Drake points to the way seemingly conflicting targets create despondency. She cites the customar service centre staff – the company's front-line staff – who were subject to a 25 per cent cut in numbers, while at the sama time being required to answer all calls in 15 seconds and provide better-quality information.

The unions also fear a creeping decentralisation as local managers are given more autonomy in the implementation of national rules. Hepher, however, stresses the limits of decentralisation: "I have regrettably concluded that you need central direction on a lot of key things in an organisation like this," he says.

Soma of these tensions are as unavoidable as those arising from job cuts, and whatever its shortcomings BT has been improving productivity at about 10 per cent per year in recent years. It is regarded as a model by most large European telephone companies and is closing the gap with the Americans.

"What strikes me is the way the company has struggled to preserve the best of the old public service ethos while making itself fit for a brutal world market," says one consultant who has worked with BT since just after privatisation.

There are even signs that the corner may hava been turned on morale, at least for the 70,000 engineers who are no longer the main focus for redundancy. A popular experiment in Nottingham – eventually to be spread to the whola country – will allow engineers to earn commission for passing on new business from a customer.

Although 25,000 middle managers are now in the firing line on redundancies, Hepher says he is considering a gentler way of approaching redundancy by allowing people "to sign up today to leave in 18 months' or two years' time".

Nevertheless, to many people – especially those aged between 35 and 50 who have been in the organisation 10 or 15 years – the modern BT remains in bewildering permanent revolution. They keep taking the medicine but they never seem to get better.

Sleazy relationships in the office

ADRIAN FURNHAM

Does the appointment, from outside and at the same time, of a husband and wife to an organisation constitute sleaze at work, or simply a fairly negotiated package deal? in the university world it is very widespread, but because females keep their maiden name it is difficult to detect. Some organisations frown upon the process, believing that nearly always one of the pair is a freeloader often appointed to a position or role less for ability, effort or motivation, more because of a relationship by blood or marriage. A sort of "job for the relatives" idea we used to dismiss as unacceptable nepotism.

Others have come up with a rsther grandiose theory based on the biological idea of assortive mating. This argues that in general tall people marry tall people; the bright seek out the bright; the sociable each other – so that couples are frequently similar one-to-another.

A wonderful study done years ago showed people with the name of Schneider (or Taylor), that is people who took their name from their job and were required to be nimble of finger but not large of stature, were in fact shorter than those called Schmidt (Smith) who being blacksmiths needed to be big and strong. Hence, appointing two spouses of near equal merit is hardly corrupt but a double bonus for the organisation.

If this theory were true, though, wouldn't one find lonely-hearts columns involved in mate selection mentioning such things as consciousness, computer-literacy and managerial competence? Ever seen; "Male with strategic perspective, decisional flair and organisational ability seeks prioritising female to implement proactive visioning"?

Most interviewers have favourite questions which they believe reveal the most about their interviewees. They acquire these from a range of different sources. Some may have been asked a question themselves in the past and, having then struggled with the answer, now think others might do likewise. Some people may have heard other interviewers pose a question, been suitably impressed and so plagiarised it. Others have purchased those "self help" type paperbacks, titled items such as *One Hundred Tough Interview Questions*.

A high-yield question is one that, quite literally, provides maximal amounts of salient information. There is one question which I find most effective and I have a pet theory about its high yield. The question is pretty simple. "What is your favourite compliment?"

I believe this question taps into two things simultaneously: values and insecurities. Almost by definition a good compliment is one which appeals to one's values and priorities, and that makes it interesting in its own right. Second, compliments often pick up insecurities. Beautiful women aren't interested in compliments about their appearance, rich men are bored by comments on their wealth. They both seek other accolades. Many beautiful women attempt to write and would like to be thought of as intelligent, sensitive and articulate (as well as beautiful). intelligent people often want to be witty, physically strong people, caring.

A favourite compliment reveals what one values and also what one is not quite certain about. To learn that from one question can't be bad.

One of our technicians died very suddenly just under 10 years ago. He was a computer enthusiast and a hungry consumer of catalogues, brochures and magazines dedicated to the field. Of course his post kept coming from eager manufacturers and publishing houses. And it still does.

In the past month he has received well over a dozen letters. Were these being simply thrown away or were they being happily consumed by someone else? Was it in fact convenient not to stop them or is it simply a nuisance that nobody has taken the responsibility for? I decided to investigate.

I found that because identical catalogues and magazines went to other technicians, the late, departed colleague's mail waa simply dumped. Some publishers were told there was no point continuing, but they did.

How long, I wonder, will this persist and what does it tell us about tha business? What determinas when a name is taken off the file? I presume, perhaps naively, that someone, somewhere, updates, checks, verifies and even monitors a *mailing list*. But *perhaps mailing* lists are sold on without ever being "cleaned-up", as the computer jargon might have it. It may be that because the hit rate for this sort of selling is so poor (maybe 2 per cent of readers respond) it does not really pay to spend time and effort checking out the corporeal status of those on the list. It may not be a way to eternity, but getting on these junkmail lists may certainly keep one's memory alive.

The author is head of the business psychology unit at University College London.

PIONEERS AND PROPHETS

Henry Ford

Henry Ford (1863-1947) is routinely lauded as the man who brought the world mass production lines. His idiosyncratic career (from boy racer to multi-millionaire anti-war campaigner) as well as his many barbed observations tend to be forgotten. There was, however, more to Ford than flow lines, workers doing mindlessly repetitive tasks and the ubiquitous Model T.

Marketing guru Ted Levitt has argued that Ford's genius actually lay in marketing, not manufacturing. Ford first decided that the world was ready for an affordable car, and then that mass-production techniques were the only way of providing it. Instead of controlling costs to produce lower prices, Ford set the price and challenged the organisation to ensure costs were low enough to meet the figure.

Ford's masterly piece of marketing lay in his intuitive realisation that the middle class car market existed. It just remained for him to provide the products the market wanted. Model Ts were black, straightforward and affordable. The trouble was that when other manufacturers added extras, Ford kept it simple and dramatically lost ground. The man with a genius for marketing lost touch with the aspirations of customers.

Even now Ford's achievements remain impressive. He built his first car in 1896, started his own company in 1903, and between 1908 and 1927 produced 15m Model Ts. In 1920 Ford was making a car a minute.

Production was based around strict functional divides – demarcations. Ford believed in people getting on with their jobs. He did not want engineers talking to salespeople, or people making decisions without his say-so. Management and managers he dismissed as largely unnecessary.

Ford did not invent the production line, he was inspired by what he had seen in the slaughterhouses of Chicago. Others – such as musket-maker Eli Whitney in the 19th century – had also made tentative steps towards the production line. But Ford transformed it into a means of previously unimagined mass production.

At the centre of Ford's thinking was the aim of standardisation – something continually emphasised by the car makers of today although they talk in terms of quality, and Ford in quantity.

While Ford will never be celebrated for his people management skills, he had an international perspective which was ahead of his time. He was also acutely aware that time was an important competitive weapon. "Time waste differs from material waste in that there can be no salvage."

"In some respects Ford remains a good role model," says Ray Wild, principal of Henley Management College. "He was an improviser and innovator, he borrowed ideas and then adapted and synthesised them. He developed flow lines that involved people; now, we have flow lines without people, but no one questions their relevance or importance. Although he is seen as having de-humanised work, it shouldn't be forgotten that he provided a level of wealth for workers and products for consumers which weren't previously available."

Stuart Crainer

BUSINESS TRAVEL

Special offers

Big savings on classy European hotel rooms are possible this winter for customers who investigate the special offers, *writes Michael Thompson-Noel*. For example, Méridien is offering winter promotional rates at its 11 European hotels from December 1 to March 31: up to 50 per cent off published tariffs. Promotional rates for a night's stay in a single or twin/double room, including taxes and services, range from $266 in the private Club Président section of the Méridien Etoile in Paris to $102 in Porto and $73 in Limassol. In London: $260.

Wise travellers know that hotels often offer a limited number of rooms at promotional rates (as in this case), so advance bookings are essential. But try to haggle. The London Méridien in Piccadilly is offering 15 rooms at the special rate, with free access to Champney's Health Club but breakfast excluded. You could ask, in a penetrating voice, why the deal at Club Président in Paris includes a free continental breakfast for virtually the same price as London's breakfastless promo. See where it gets you.

Give and take

Even the bedside Gideon Bible is not safe from the clutches of business executives staying in hotels, says a survey by Britain's Reed Travel Group. Coat-hangers, cutlery and TV remote-controls are other items they take, while nightclothes, underwear and ties top the list of things they leave. Younger business travellers are the most light-fingered. British executives visit the US on business more than their European counterparts. One in five business travellers takes exercise while away. The survey covered 1,270 business travellers.

London City

London City Airport has launched new routes to Geneva and Hamburg, and says it is celebrating another "tremendous increase" in passenger numbers. Crossair, the Swiss airline, which has services to Zurich and Lugano, has added a twice-daily flight to Geneva. And Lufthansa has added five flights a week to Hamburg, as well as improving its flight schedule to Frankfurt. London City Airport says 49,680 passengers used its flights last month, a 76 per cent gain on October last year. It now serves 11 destinations, but plans to add to them at year's turn.

KLM deal

KLM Royal Dutch Airlines says it is offering reductions of up to 35 per cent on business-class fares to destinations outside Europe from now to April 1. A spokeswoman said most reductions would be about 20 per cent, though 35 per cent was possible in some cases. KLM is aiming its reductions at business-class travellers whose companies have no formal ticket-purchasing contract with it – an area, said the spokeswoman, in which KLM faces heavy competition from other European carriers.

Hyatt-Internet

Hyatt Hotels is to offer guests the chance to book rooms in its North American properties through the Internet, the worldwide computer network, *writes Michael Skapinker*. Personal computer users can already request details of Hyatt rooms, restaurants and leisure facilities over the Internet, and view colour photographs of the hotels. By the end of next month they will be able to book rooms at 103 Hyatt hotels and resorts in the US and Canada. Hyatt plans to extend the facility to travel agents. Thisco, the company which is setting up Internet booking for Hyatt, said it plans to add other hotel companies to the network eventually.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	18	17	19	19	17
Hong Kong	27	27	27	28	28
London	12	13	12	10	10
Frankfurt	10	11	12	12	10
New York	17	19	15	11	13
L. Angeles	18	19	21	18	19
Milan	14	13	13	12	13
Paris	12	14	14	13	11
Zurich	10	10	11	10	7

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

The hard trail to post-sanctions Iraq

Mark Nicholson with tips for the business optimist

Visiting Baghdad is still not easy. It takes an arduous 12- to 14-hour drive from Amman to get there. Hotels are stripped of the least luxury. Doing business in anything but food and medicines requires approval from the stern UN sanctions committee. How much money Iraq's government has to pay for things is a matter of doubt. And the post-sanctions atmosphere in the Middle East's most oppressively policed state is not festive.

None of this, however, has deterred coachloads of French, Italian, Russian, Turkish, Canadian and even a few hardy British businessmen from making the trip – all preparing for the day when the shackle of sanctions is unlocked from what, before the Gulf war, was among the region's richest markets.

So, some tips for dogged optimists:

All non-Arab visitors require a visa to get into Baghdad, which is more than a formality given Iraq's lack of diplomatic relations with most western countries, whose governments mostly discourage all visits to Iraq.

Iraq's embassy in Amman is well used to processing journalists' visas, and might be worth calling directly for information on business passes. Visa approval takes time. Most countries also have an Iraqi interest section in a "neutral" local embassy. In Baghdad itself, US and British interests are represented by the Polish and Russian embassies, for instance.

Once a visa is approved, travellers will need to start their journey in Jordan. There is then no alternative but to travel the Amman-Baghdad desert highway, which takes a minimum of 12 hours if you are lucky enough to take only an hour crossing the border. But be warned: it can take several hours to cross.

Taxis can easily be hired in Amman – for instance through the Intercontinental Hotel – and prices vary with demand and bargaining abilities. But count on paying around $250 per one-way trip in one of the numerous big GMC Suburban taxis which ply the route. Saloon cars are cheaper, but 12 cramped hours is a long, long drive. In Iraq itself, travel by day if possible, for diplomats warn against driving anywhere in Iraq by night and travellers have been robbed and killed on the Amman-Baghdad road recently.

Crossing the border is relatively straight-forward, but those taking personal computers should have them marked on the entry visa. An "Aids test" (ie, a means of relieving foreigners of $50) at the border is obligatory, so equip yourself with sterilised needles. If you are lucky, and you or your driver are savvy enough, the "Aids test" can be circumvented by a small "gift" at the border. A pack of Marlboros might suffice, and are a good thing to have about you at all times.

In Baghdad, all main hotels are operating, and the al-Rasheed (as seen on CNN), the Meridien and Sheraton all offer rooms at $100 a night plus a small Iraq dinar charge for obligatory breakfast – usually an anaemic omelette. Food is in critically short supply in Iraq, and hotels and restaurants offer meagre fare, so it is worth stocking up on food and drinks before leaving. Such goods would be gratefully accepted by Iraqi business partners.

All substantial bills can be met in US dollars, but it is worth changing some into Iraqi dinars. And forget credit cards. Swap $100 at first, which will produce enough low-denomination dinars to stuff a briefcase. By the time you leave you will be able to count notes with the dexterity of a bank-teller, for in hyper-inflationary Baghdad even paying a restaurant bill will remind you of playing Monopoly.

Not that Baghdad's once-buzzing restaurants are what they were. The shortage of food and a recent ban on public drinking has plunged the city's best eateries into sad, deserted gloom.

The al-Diwan "Chinese" restaurant, with Tunisian cook, at the al-Hamra hotel still manages a cheap, passable but tiny-portioned meal. The al-Mudeef restaurant on the Tigris corniche is also worth trying, and highly picturesque, but when I drew the waiters' attention to a big rat contentedly weaving through the feet of customers on its way to the kitchen, they barely shrugged.

Baghdad: food and drinks would be gratefully accepted by Iraqi business partners

Beware, too, the once cheap and cheerful Tigris-side fish restaurants. It is still possible to choose a tasty-looking live fish to grill, but UN experts in Baghdad warn that they are more than usually nourished these days on fecal matter poured into the river, so chase your meal down with some immodium.

Getting around Baghdad is no problem. Each hotel has plenty of over-attentive taxi drivers who will charge $50 a day. Many of them live in the big hotels, and are keen to act as guides. They will not prove the most critical or independent observers of Iraq's political system, but this is not a topic you should try to discuss. It might also prove highly risky to take up these drivers' offers to change money at black-market rates. No foreign visitor will go anywhere, do anything or meet anyone without being closely watched or reported upon.

Communications with the outside world are also a problem, unless you have access to a satellite telephone. Most business locals telex home base for a call-back, which usually comes through to the main hotels quickly and readily. Overseas calls from the big hotels can be booked, but take hours.

All of which compounds the mood of cheerless isolation which descends swiftly on visitors to Baghdad. Day trips can alleviate things: Babylon is an hour away by taxi, for example. And there are shopping opportunities for those with a strong enough heart to buy fine carpets and silver from locals who need money to buy food. However, rigorous customs checks when you are leaving mean you might lose your purchases without recourse.

If none of this deters you – the best of luck.

Hotel costs fall in Japan

By Michael Skapinker

Japanese hotel rates have plunged this year, but Tokyo and Osaka remain the most expensive cities in the world in which to rent a room, according to Hogg Robinson Business Travel International.

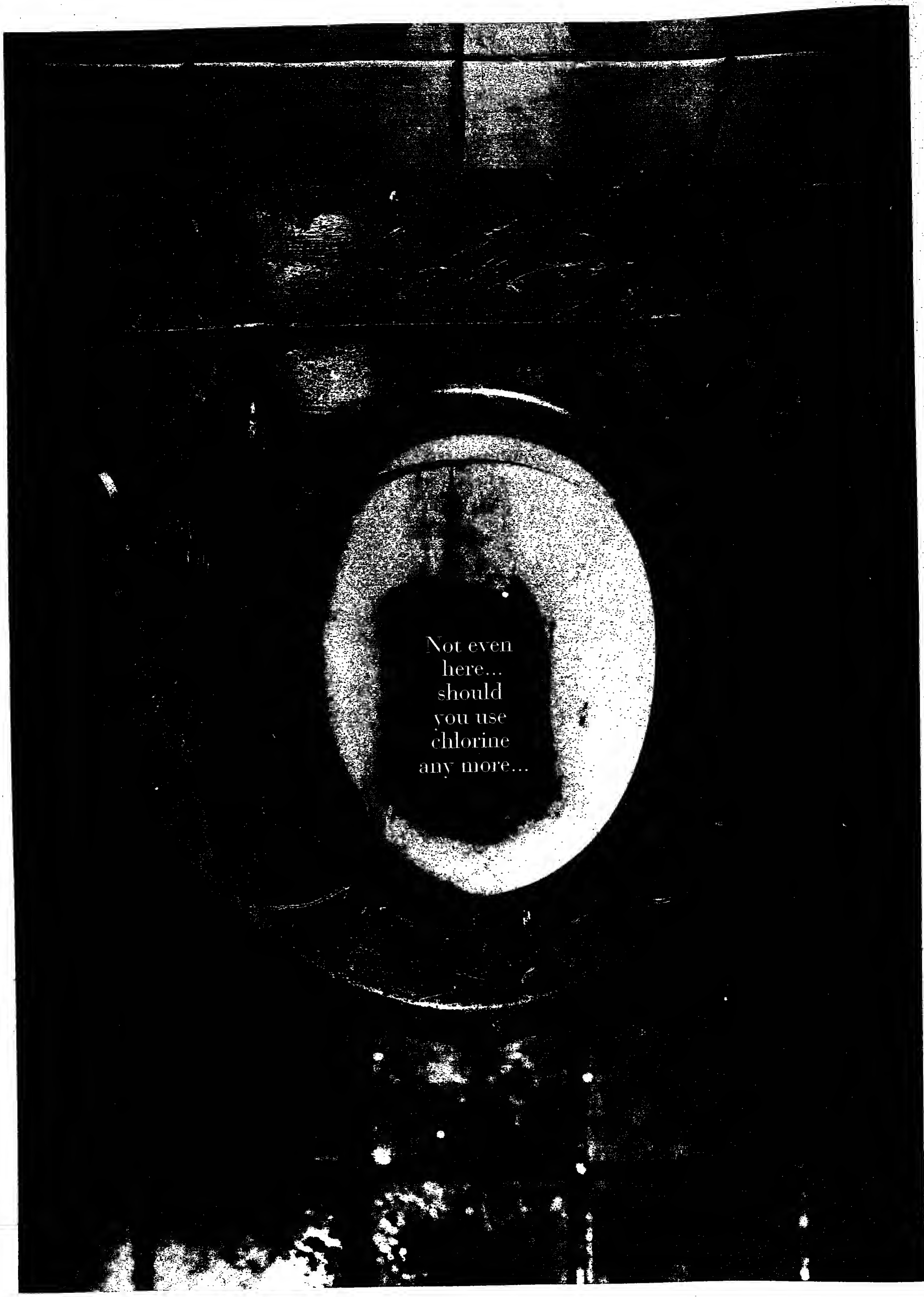
Hogg Robinson said prices paid by its clients show that Tokyo's rates have fallen 16 per cent to an average of £167.18 a night, while Osaka's dropped 29 per cent to £143.87, the biggest fall for any important city in the world. Even with the decrease, Osaka was the world's second most expensive city.

Hong Kong was third, with rates up 12 per cent to £131.24, and New York fourth on £126.11, 4 per cent higher. Fifth spot was taken by Zurich – average rates of £123.37, a fall of 6 per cent – and then came Kowloon (£117.99) and Washington (£110.89).

Frankfurt was in eighth (£108.18), Paris (£107.12) ninth and Copenhagen (£106.73) 10th. London, regarded by many as an over-priced hotel city, is only the 39th most expensive, Hogg Robinson says. London's rates fell 3 per cent this year to £80.35.

Mike Gates, a Hogg Robinson director, says that travellers should not be repulsed by London's high advertised room rates. Far lower prices are available to those who shop around.

● *Further information: Michelle Waldron or Tania Littlehales, tele: 071-497 3001.*



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The Dalgety director who took an early bath

Jack Rowell stepped down from the board in order to transfer his winning streak to England's rugby team. **Roderick Oram** reports

"Karine – is that how you pronounce it? Lovely name," Jack Rowell said to tha waitress. He is a man who knows a bit about motivation. *Needless to say, service* at lunch was excellent.

Last night, Rowell got together with a more robust cast of characters: the 21 members of tha England rugby union squad. Their first international game with Rowell as manager and coach is against Romania on Saturday. Only 15 will take to the Twickenham pitch, selected and motivated in Rowell's inimitable style.

Charm, inspiration, pugnacity and fear are a few of the words that pepper comments *about this very tall and imposing* man from colleagues both on the rugby pitch and around the boardroom table.

In business, his reward for saving Golden Wonder Crisps carried him to the board of Dalgety. The snack foods manufacturer, bought from Hanson in 1986, was "run down", according to Dalgety, which put in Rowell as chief executive. In sport, success in making Bath the best British – perhaps European – club team has landed him the England job.

"Business and sport have been mutually dependent for me," Rowell says. "Winning at sport gives you a lot of confidence that rubs off in business, but sport also washes the mind of pressures so you come back to business refreshed."

Business had come first and rugby was a hobby. But Rowell has reversed his priorities for England. He has stepped down at Dalgety to work on projects he can fit around rugby, and picked up a couple of non-executive directorships to keep his hand in.

"My wife Susan said to me: 'After the Alpine peaks of [club] rugby, you have to try the Himalayas'." Fifty-eight last Tuesday, he looks to this as "the pinnacle of my rugby career".

Rowell's arrival as manager was less dramatic than his arrival at Golden Wonder. Dalgety was struggling to make good its acquisition and worse, the factory burnt down shortly *after he joined.* "The company literally rose from the ashes," says one analyst.

Taking on England presents different challenges as the team prepares for next year's World Cup in South Africa. "We have to develop a more flexible way of scoring tries," says Rowell.

His appointment as manager last spring was greeted warmly because of his team-building skills and deep knowledge and love of the game. *Some former* players, though, have wondered out loud whether his use of *fear and* love of making players compete for places on the pitch would work among the egos at international level.

Two small squalls have blown up already: one was with the coach Dick Best who, after this aummer's tour of *South Africa, was relieved of* his job which Rowell took on additionally; he also tried to insist that his squad members be excused their club games last Saturday to leave them fresher for the international. He backed down but nobody believes he will drop it.

"He's won most times," says Maurice Warren, Dalgety's cbairman and a veteran of such encounters after 15 years as Rowell's boss. Rowell is one *of the most inspirational* and effective managers he has met, and a delight to work with. But *he is very obstinate and often* unforthcoming, says Warren.

"It's very difficult to get to the *bottom of what he's thinking*, what he's planning. It is also hard to get him to understand when changes are required," says Warren.

"I had to pick my moments to have my rows with him. The best way was to sit him down at a botel or otber public place." Having lots of passers-by belped restrain Rowell.

A *rumbustious personality* was evident from the outset of his career when he arrived as a trainee accountant at a Middlesbrough practice in the 1960s. *"His riotous sense of* humour and keen intellect enlivened the place," says John Precious, then a fellow trainee, now chairman of Celsis International, the biotech company Rowell recently joined as a non-executive.

Working later for Procter & *Gamble in the north-east*, Rowell resumed a rugby career cut short at Oxford University by a *serious injury.* He played for Gosforth, then took over as coach. "I learnt more about managing than ever before. I had to be a credible leader of England players on the *team*."

A job change took him to *Bristol* – and Bath's rugby club was conveniently close by. Both endeavours draw on com*mon ingredients for success*, he says: pbysical and mental fitness, skills and team building. He looks for people wbo are "competitive, sparky, self-motivated individuals". He believes in giving the individual the confidence and tools "to exer*cise* their *skills and* judgment in the heat of battle".

The personal toucb is key to Rowell's technique. In the changing room before a matcb be is known for going to each player in turn – praising, brow-beating, eocouraging or cajoling as he sees fit. Performance is everything, but if a player is dropped from tbe team, Rowell will work with him to rebuild his confidence.

He sets "stretcb targets", believing that people can constantly give 15 per cent more effort than they think possible. "For human nature reasons, you also need internal competition. I'm a great believer in peer pressure and approval, but in an open environment wbere people *can* say you're letting the team down." Above all, there is the will to win. "Business generally neglects the psycbology of winning."

A flash of temper is among his tricks, too. "Sometimes you have to be bloody-minded to sort things out. It releases your own tension and belps you make your point."

Once his team takes to the field, he lets them get on with the job. During matches at Bath he was known for pacing around the ground, always watching, always analysing. Twickenham's soaring stands may constrain his style. But every England player on the pitch will liva in hope or fear of Rowell's praise or criticism.

NAMES IN THE NEWS

Sons bring Ziff back to zero

On his retirement earlier this year, Wired, *the trendy San* Francisco magazine, described Bill Ziff as "the most powerful unknown publisher in America, but arguably the most powerful man in computing", writes Louise Kehoe.

Just a few weeks later, Ziff's high tech publishing empire was put on the block by his three sons, who announced that they had no interest in following in their father's footsteps but would instead form an investment firm.

Over the past few days the wisbes of the Ziffs junior have been fulfilled. Most of the assets of Ziff Communications have been sold off in three parcels for about $2bn.

The sales mark the end of a decade in which the name Ziff *has become synonymous* with influence in the personal computer industry. When Ziff publications praised a new product, it was a sure fire success. When they panned it, it was all but dead.

Tha success of Ziff's publishing business is all the more remarkable because it was built from the scraps of a much broader *publishing* group that included magazines about cars, hi-fi and many other special interests.

In 1982, Bill Ziff was diagnosed as having terminal cancer. He sold off most of the assets of the business, founded by his father, that he had built up over the previous 29 years for $712.5m. But buyers showed little interest in the company's fledgling computer magazines.

Despite his doctors' negative prognoses, *Bill Ziff* recovered his health and built the remnants of his family business into a new *publishing* empire focused on the computer industry.

The Ziff family is "delighted" by the terms of the sale of its businesses, Dirk Ziff, the oldest of the sons said last week. It is hard to imagine, *however*, that Bill Ziff does not regret his sons' decision not to carry on the *publishing* dynasty.

Dejouany lines up successor

When French companies skip a generation, they often do it *in style, writes* Andrew Jack. Jean-Marie Messier, the heir apparent at Générale des Eaux, is almost exactly half the age of the incumbent.

Guy Dejouany, *chairman* of the enormous French utilities and communications group *which* reported first half profits last month of FFr 1.26bn, is now 73 and has finally decided it is time to make plans for succession.

Messier, *a partner* at Lazard Frères, the merchant bank, at 37 has considerable experience in his portfolio already.

It seems that Dejouany has made the selection personally, although it has yet to be ratified. If all goes to plan, Messier will *join* the board soon after, probably in a role such as director general.

Company sources suggest that Dejouany is not expected to retire for some time – perhaps not until 1996 – and will retain considerable power as "president". Dejouany's reputation is of an extraordinarily hard worker. *He recently* said to a friend: "I must be getting old. I sometimes find that after 11 pm I get tired reading documents."

Born in Grenoble, Messier graduated from two of the most important schools – the Ecole *Polytechniqe and the* Ecole Nationale d'Administration – before becoming *a member of the* highly respected -Inspecteurs des Finances.

Ha was an adviser on prime minister Edouard Balladur's privatisation programme, became a partner at Lazard Frères aged 32, and in the past few months has built up a *strong* link with Générale des Eaux as its investment banker.

Ohga collects another award

Norio Ohga, 63, the colourful *president and chief executive* of Sony, is about to collect another award – and this time *not for his piano playing*, writes William Dawkins.

George Washington University *has named him* as its first international chief executive of the year. The fact that Ohga's *talents are not just* limited to business is an "inspiration to business leaders around the world", says David Fowler, the dean.

Ohga learned to play the *piano* at the age of seven, studied music in Munich and Berlin, and had started a career as an opera singer when he was spotted by Akio Morita, Sony's founder. Since then, the baritone has provided the cultural and design input.

Ohga is well known in US business circles, having taken a big part in Sony's negotiations to buy CBS Records for $2bn in 1987 and *Columbia Pictures for* $3.4bn in 1989 – the biggest foreign acquisition by a Japanese company.

This realised the dream of Ohga and Morita to add software – films and music – to a consumer electronics hardware *making* business.

That dream has become something of a headache during the recession, but Sony, under Ohga, is sticking to the strategy. The recession certainly has not dented his taste for the grand gesture, as *shown when he appeared* in New York last year to conduct the Metropolitan Opera *Orchestra before a capacity* audience. He will content himself in Washington next Friday with giving a speech at the award ceremony.

Harry Schwartz goes home

Harry Schwartz, South Africa's *ambassador to the US* and a longtime friend of President Mandela, is going back into legal practice and will *devote* himself to getting foreign investment for "the new South Africa", writes Nancy Dunne.

He is setting up shop in Johannesburg representing the prestigious Washington law firm of Akin, Gump, Strauss, Hauer & Feld, which is headed by two Democratic party stalwarts. He also will join the Johannesburg-based law firm of Hofmeyr van der Merwa, which he is merging with his own former firm – Schwartz-North. "I would like to devote my efforts to *sustaining democracy* by assisting in the development of economic growth and job *creation," he said in his* farewell statement.

هكذا من الأصل

MEDIA FUTURES

Japanese take a walk on the wide side

Alice Rawsthorn on the new TV format that has taken the industry by surprise

One of the hottest items on the shopping list of any aelf-respecting Tokyo techno-huff is a television set which would seem more at home in the spacious lounges of 1950s Las Vegas than the ascetic apartments of 1990s Omote-Sando – a wide-screen.

Wide-screens are conventional TV sets with unusually wide screens: designed in the same proportions as those in cinemas. They might look like throwbacks to the 1950s. but they have taken the Japanese market hy storm since their launch two years ago.

One in five TVs bought in Japan this year will he wide-screens. according to the Electrical Industry Association. By the end of the century they will be in nearly every Japanese home. The wide-screen is now making its dehut in Europe to coincide with the Introduction of new-generation TVs made to the Pal-Plus standard that significantly improves picture quality.

Nokia has already launched the first wide-screen Pal-Plus set, and Sony. Philips and Grundig are about to follow, in the hope that Europeans will embrace wide-screen as their format for the late 1990s.

The speed with which wide-screen has taken off in Japan came as a surprise, not least to the consumer electronics industry. Tha first wide-screen sets were introduced three years ago, but were seen hy Sony, Sanyo, Matsushita, Sharp and other leading manufacturers as little more than an interesting alternative to the popular big-screen sets that might attract a cult market of film huffs.

After all, there is nothing special about the technology behind the wide-screens now on sale in Japan. They function like ordinary TVs hut will, eventually, he able to relay higher-quality images for broadcast programmes when Japan's new Extended Definition Televlsion (EDTV) service starts next year. In the meantime, the only real advantage for viewers is that, thanks to the wide-screeu's special 16:9 dimensions, they can watch movies on video in their origioal cinematic scale, rather than the cramped version usually used on TV.

To the innovation-obsessed Japanese electronics Industry, wide-screen seemed far less interesting than a more elaborate and expensive development that came to the market at about the same time: high-definition TV, or HDTV. The industry confidently expected that HDTV would create a lucrative new market hy becoming *the* TV format for the 21st century.

In technology terms, HDTV is far superior to wide-screen. However, its development has been dogged hy regulatory rows, pricing problems and software shortages. The regulators have yet to decide when it will be launched in the US or Europe. At present it is available only in Japan.

The industry, anxious to exploit its exciting new technology, rushed HDTV on to the Japanese market in the early 1990s. Sales have been disappointing. Only 10,000 systems were sold in 1992 and the same number in 1993, according to the EIA. Things have picked up this year, hut sales are only expected to total 30,000. This reflects efforts to reduce prices. Matsushita's Panasonic suhsidiary has slashed the cost of its HDTV systems from Y2.5m ($25,500) to Y550,000 – still more expensive than conventional TVs, given that a standard Panasonic 21-inch set costs Y130,000.

But the main prohlem for HDTV is dearth of programming. At present it is restricted to 10 hours of test broadcasts a day. This is not expected to improve significantly until Japan's new HDTV service is introduced in 1997. Most manufacturers are resigned to waiting until then to try to recoup their investment. Some, such as Sanyo, are redirecting their efforts away from the consumer market to selling HDTV as an educational and promotional medium to museums and companies.

Meanwhile, wide-screen, originally treated as HDTV's poor relation, has prospered. And there is no shortage of software. For years there has been a cult market among Japanese film-buffs for 16:9 video versions of particular movies, notahly Ridley Scott's *Bladerunner*. Most video stores now stock films in standard and wide-screen format, enabling consumers to get the full benefit of wide-screen when watching movies on video. The market should receive another boost with the launch of EDTV next year, enahling broadcasters to be more inventive with programmes, particularly when filming sport.

The number of wide-screens sold in Japan has risen rapidly from 60,000 sets in 1992 to 300,000 last year and to an estimated 1.5m this year. The EIA forecasts continued growth for the rest of the 1990s, with wide-screen becoming Japan's dominant format by 2000.

The industry is now waiting to see whether wide-screen catches on in Europe, where HDTV's prospects are still clouded. Earlier this year Sony introduced two wide-screen sets to the European market. Both use the old Pal format, rather than Pal-Plus, yet Sony says sales are well ahead of initial targets, auguring well for the launch of its first Pal-Plus sets in January.

"We see wide-screen as the next hig step forward for the European television market," says Sony Europe. "But we're also realistic. It's very unusual for a new product to sell as quickly anywhere else as it does in Japan."

Newspapers: the eyes have it

Winston Fletcher makes a case for traditional reading matter

It is a truth universally acknowledged that newspapers will soon be popping their cloga – that the newspaper is to television what the pony and trap was to the motor car.

I beg to differ. Unarguahly, newspaper circulations have fallen during the 40 or so years since television got going. But they have not plummeted. In the mid-1950s, when post-war newsprint rationing ended and papers were artificially cheap, the total circulation of Britain's national dailies peaked at 16.7m. After 35 years of television, that figure had dropped to 15.6m. During the late 1980s, total circulations *grew*.

The Sundays, admittedly, fared worse in the 1950s and 1960s, but likewise later stabilised. So the walk to the virtual scaffold, if such it be, has been long and sedate.

The soothsayers believe the walk is about to turn into a trot. Their on-line tea leaves predict that as televisual communications become fastar, cheaper, more sophisticated, more flexible – and interactive – people will get more and more of their news, data, entertainment and know-how off the screen.

Before too long, everything newspapers now offer will be provided televisually, and everyone knows that a pixel is worth 1,000 words, don't they? Again, I beg to differ.

Forget, for the moment, superhighways, CD-Roms, surfing on the Internet and the plethora of less-than-user-friendly hyper-jargon. Think, instead, about the human eye – upon which, in the end, all the cybernetic doodahs depend.

From the eye's point of view there are several key differences between printed communications and televisual communications. First, televisual commnnications must he sequential. In future it may be possible to alter the sequences – to get your sport at the beginning of the TV news instead of at the end. Even that will he hideously difficult and costly. But you will never be able to start at the end and work backward. Or, if you do, you won't be ahle to make sense of it.

You can't make mnch sense of watching film backwards. Human eyes (and ears and hrains) don't work that way. But human eyes can, and do, start anywhere on a page, and skip around. This will prove to be much more significant than it may seem, for it leads to another – perhaps still more significant – difference between printed and televisual media. The eye can scan this entire edition of the FT in minutes, selecting the ltems you want to explore further. Imagine doing that by pressing huttons to hring articles on to your screen. You might hardly get heyond sorting out the leader page.

And this is anything hut unimportant. To read your FT from beginning to end (excluding the market prices) would take six or seven hours. (Even reading The Sun would take a couple of hours). So it would be impossihle to include the full contents of the FT – or even of The Sun – in a television news programme.

With a newspaper your eyes can sort out what interests you most and eliminate what does not. You can start to read an article, then stop, or hop from paragraph to paragraph, or go back and re-read if you haven't understood something. Try doing that on a screen, with or without a remota control.

Not that there is much benefit in getting data from a screen if you have to read it. Tha benefit of a screen ls eithar that an announcer can read it to you (but how slow), or that the data can be interwoven with relevant film material (making it sequentially time-consuming). True, screens can constantly update data, as can radio. But how many areas of information require continuous updating? Even watching the news non-stop is dullsville. Sky News and CNN are great to dip into – dreary as hell to sit glued to.

And I have not even mentioned the more mundane benefits of newspapers. They are portahle, light, silent, very cheap and can be disposed of easily. They can he studied, scrihhled on and passed around. They don't crash or catch viruses. They can he stuck on notice-boards and photo-copied. Ahove all, they can be handled by non-computer-literate, non-dextrous, non-interactive dumb human beings like me.

With all these advantages, one cannot help hut wonder whether – had TV heen invented hy Caxton and printing hy John Logie Baird – seers would not now be predicting the demise of TV and an explosion of printed communications.

Advertisers are in no douht about the efficacy of printed messages. Although their market share has dipped, total print media in Britain still account for 55 per cent of all advertising expenditure compared with 28 per cent for television. (In fact, the fastest-growing UK advertising medium at the moment is homely, old-fashioned steam radio).

None of which is intended to imply that televisual communications are not about to grow rapidly. Patently they are. But they are less competitive with newspapers than they seem. The two forms of media complement each other, and will co-exist for as far ahead as the human eye can see. And it will be the human eye – not futuristic technology – which evaluates their relative strengths and weaknesses.

If Britain's national dailies continue to lose circulation, as they have in the past, hy 1.1m copies every 35 years – we are talking trends, aren't we? – they will still be selling 2m or so copies daily in 2,500. That is not a prohlem I can get worked up about right now.

● *Winston Fletcher is chairmon of the UK Advertising Association, ond chairman of the advertising agency DFSD Bozell, whose clients include the Financial Times.*

Trevor Humphries

Jurassic paper shop?: circulations have fallen since the advent of television hut don't write off newspapers yet

ITV line to better schedules

By Raymond Snoddy

The ITV Network has developed a computer system designed to predict the most effective programming schedule in terms both of size of audience and attractiveness to advertisers. ITV executives believa that the Evaluator, as the system is being called, is the world's most sophisticated computerised aid for programme scheduling.

For exampla, if ITV was considering moving *The Russ Abbott Show* to Tuesday at 9.00pm, the Evaluator would be able to predict how many people were likely to watch and tha demographic profile and viewing characteristics of the audience.

"The ITV network has a tool to take its understanding and evaluation of programme performance and audience delivery to a higher level than previously," David Brennan, controller of audience planning for the ITV Network Centre, told a *Media Week* conference at the weekend.

The Evaluator is going to be launched formally within the next few weeks. After extensive testing to make sure is does not recommend playing top ITV programmes such as *Coronation Street* at midnight, it will be let loose on real schedules from the beginning of next year.

An essential ingredient in creating Evaluator has been the use of confidential information from advertising agencies on their overall TV spending, broken down into sub-demographic groups, the proportion of the UK population they want to reach with advertisements and at what frequency.

This financial information was used to place a relative value on each member of the panel of viewers that provides the official BARB TV ratings. After analysing the audience to every networked programme transmitted so far this year, it has been possible to place monetary values against each programme. To try to predict accurately both the audience and advertising effects of changes to the schedule, Evaluator has gone one step further. It has applied cluster analysis to the viewing habits of every member of the BARB panel over 12 weeks. They were divided up, not only into heavy, medium and light viewers but into a total of 23 differeot categories according to their viewing tastes and preferences.

Brennan said he had no doubt that Evaluator would be an important decision-making tool both for the Network Centre and the individual ITV companies, even though sometimes decisions would be taken despite computerised recommendations.

ARCHITECTURE

Mausoleum mountain

Colin Amery discusses whether the Getty Center makes sense

It looks like the ruins of the Potala Palace in Tibet. The huge bulk of its soaring solid walls rising out of the rocky hill-top dominates the view from the San Diego freeway. This is Los Angeles, and what looks like a giant film-set for a major historical movie turns out to be the still-unfinished Getty Center.

What is slowly growing beneath the cranes is a college of culture – a series of buildings around courtyards where the most arcane aspects of the visual and decorative arts will be studied.

When he won the competition to dasign the centre in 1984, Richard Meier, a New York architect, described it as "the architectural commission of the century". Many people in the art world and in Los Angeles are now wondering whether it will ever be completed.

Today, the estimated final construction cost is not far short of $750m. The plans show some 1.6m sq ft of buildings, a figure which was quadrupled during the long planning period.

Why has it taken so long, and why did the Getty Trust decide to huild what is a new university with a museum in it?

It looks as though 10 years of wearying debate between the academic factions at the Getty have been the major reason for the slow progress of the project. The choice of site – 600 acres of hilly terrain in Brentwood, in West Los Angeles – has necessitated massive excavation and also complex negotiations with the neighbours, who are concerned about the arrival of a cultural Disneyland on their doorstep.

The choice of a famous architect with a defined philosophy has inevitahly prolonged the exercise. Richard Meler was a predictahle choice when you look at the composition of the competition jury. He was famous in the 1980s for his museums in Germany, and for the High museum in Atlanta, Georgia.

His white metal-clad cubist houses brought a disciplined and cruel symmetry to the minimal homes of the super-rich. His work is abstract, and he uses only the history of a brief period of modernism as his palette. There was such a predictability about his white buildings in the 1970s and '80s that he became known as the "Frigidaire architect", and many douhts have baen expressed about his suitability for the Getty. The magnificent site demands the opposite of a clinical approach, so the question has to be asked: does a random scattaring of cubist alements, some clad in stone, some in white metal, significantly enrich the Los Angeles landscape?

The symbolism of these hermetic blocks on top of a mountain does not suggest that the Getty is particularly concerned about making fine art an accessible part of life. Conservationists, acquisitive curators and academics are a bad combination when it comes to museums. Inevitably, they feel proprietorial ahout their collections, and are often unahle to make their researches more relevant than a secret shared among a few competitive colleagues.

The idea for a campus of six main buildings, each one dedicated to different aspects of art preservation and education, was to bring together a college of experts on one site to ensure harmonious dialogue and a stimulating atmosphere for research. The Getty is being built at a tima when the great information explosion and advances in computer technology have made it completely unnecessary to have all your scholars and books and collections in one place.

Building a home for some of the most important and most expensive works of art in the world on top of a mountain in a city regularly threatened hy aarthquakes is risky. Great sums of money have been spent to try and ensure that the centre can withstand major shocks.

There has also been vast expenditure on landscaping and tree-planting to satisfy the neighbours' demands for an almost invisible building. Three years into the construction programme the only completed buildings are the vast underground garage and a tram station for the funicular that will give visitors a ride around the site.

It is important to remember that the Getty has huge grant-making and educational programmes which have a more useful and less visible impact on the world than this monumental project. But it is the work of Richard Meier that will leave the greatest impression.

There is considerable unhappiness about the removal of so many great works of art from around the world to this mountain-top mausoleum. The scale of the museum's wealth means that however carefully it huys, it will be seen as predatory and reactionary in its desire to own so much for itself. The fact that the British government decided not to let the sculpture of the *Three Graces* go to the Getty is a small signal that the days of its domination in the art market may he over, at least for now.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
BBA 10% Db. 1989/94 £5.0
Bristol & West Bldg. Scty. 13⅝% Perm Int. Brg. £66.875
Conversion 9¾% 2003 £4.875
Brit Petroleum 2.5p
Brit Vita 3.75p
Clarke Nickolls & Coombs 0.1p
Courtaulds 6% Cm. 2nd Pf. 2.1p
Eksportfinans 7¾% Nts. 1997 C$77.50
European Smaller Co's 0.56p
Golden Vale IR0.6p
GT Japan Inv. Tst. 1.1p
Irish Contl. IR1.176p
I & S Optimum Inc. Tst. 1.95p
Logica 3.8p
Macro 4 11.98p
Manders 2.9p
Mazda Motor FRN Aug.1996 Y65406.0
Do. FRN Nov.1996 Y65406.0
Morrison (Wm) Supermarkets 0.24p
NM Smaller Australian Co's 0.25p
Osaka Gas 4.95% Nts. 1999 Y495000.0
Rentokil 1.01p
Scholl 2.6p
Sterling Publishing 2.9p
Sweden (Kingdom of) 8% Bd. 1997 DM800.0
Wyevale Garden Centres 2.93p
Zeneca 10.75p

■ TOMORROW
Black (A&C) 4.25p
Goodwin 0.655p
Macallan-Glenlivet 0.41p
Minorco $0.38
Nottingham Gass Anns. £1.625
Royal Doulton 1.75p
Sumitomo Fin. FRBN 1994 124687.5
Waterman Partnership 0.5p

■ WEDNESDAY NOVEMBER 9
Abtrust Prf. Inc. Inv. Tst. 3p
Bowater 5.8p
Collateralised Mortgage (No.12) Class B Mtg. FRN 2028 £196.64
Dixon Motors 1.25p
Hall Eng. 5p
Halos 8⅜% Db. 2018 £4.1875
Int. Bank for Reconstruction & Dev. 11½% Ln. 2003 £5.75
Jerome (S) 0.5p
New Throgmorton Tst. (1983) 1p
Nova Scotia (Province of) FRN 1999 $126.18
NTT Data Comms. Systems4.1% Bd. 1999 Y113888.0
Polypipe 1.59p
River & Mercantile Smaller Co's 2.8875p

■ THURSDAY NOVEMBER 10
Am. Express $0.225
Barclays Jnr Gtd. Und. FRN $132.57
Cantors 3p
Chelsfield 1p
Christiania Bank Prim Cap. Und. FRN $261.94
Courtaulds Textiles 4.9p
Fletcher Challenge NZ$0.0625
Forth Ports 2.7p
Guinnness 3.9p
Henderson Highland Tst. 1.4p
Inchcape 6¼% Cv. Sb. Bd. 2008 £31.25
Inspec 1.33p
Int. Business Comms. 1.5p
Johnston Press 2.75p
Liberty 1.85p
Merivale Moore 2p
MTL Instruments 1.9p
PCT 2.7p
P & O 6% Cv. Bd. 1st Ser.1989 $150.0
Radrow Grp. 1.8p
Wolstenholme Rink 7.8p

■ FRIDAY NOVEMBER 11
Alliance Tst. 4½% Db. £2.25
Anglovaal R0.88
Do. N R0.88
Boosey & Hawkes 1.32p
Dewhirst 0.65p
Finelist 1.5p
First National Bldg. Scty. 11⅜% Perm. Int. Brg. IR£568.75
Do. 11¾% Perm Int. Brg. IR£587.50
F & C Pacific Inv. Tst. 1.2p
Gates (UK) 4¼% Rd. Db. £2.125
Glasgow 3½% Irrd. £1.75
Do. Gas 6¾% £3.375
Do. Gas 9% £4.50
Do. Water 50p
Do. Waterworks Debt 3½% £1.75
Do. Waterworks Debt 4% £2.0
Headlam 1p
HTV 0.75p
Investors Capital 4% Db. Rd. £2.0
Isotron 3.11p
Mazda Motor FRN 2000 Y69000.0
Mirror Grp. 1p
More O'Ferrall 3.2p
NB Smaller Co's Tst. 0.94p
North Housing Assoc. 8¾% Gld. Ln. 2037 £4.375
Page (Michael) 0.8p
Provident Financial 6.5p
Rossmont 0.2p
Scottish Eastern Inv. Tst. 4% Db. £2.0
Do. 4% Perp. Db. £2.0
Scottish Mortgage & Tst. 4½% Db. Irrd. £2.25
Second Alliance Tst. 4½% Db. £2.25
Secure Tst. 5p
Sinclair (William) 5.45p
Tibbett & Britten 5p
Tilbury Douglas 10.5p
Wassall 1.15p
Weir Grp. 2.06p

■ SATURDAY NOVEMBER 12
Tottenham Hotspur 1p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Hays, Hogs Back Hotel, Seale, Farnham, Surrey, 12.00

BOARD MEETINGS:
Finals:
Assoc British Foods
Automagic Hldgs.
Five Oaks Invs.
Stratagem
Interims:
BAA
Investment Co.
Merchant Retail Grp.

■ TOMORROW
COMPANY MEETINGS:
Community Hospitals, The Brewery, Chiswell Street, E.C., 12.00
Kleinwort High Inc. Tst., 10, Fenchurch Street, E.C., 10.00
River & Mercantile Smaller Co's Tst., New Connaught Rooms, Great Queen Street, W.C., 12.00

BOARD MEETINGS:
Finals:
AG Hldgs.
Gartmore Shared Equity Tst.
UPF Grp.
Interims:
Anglian Water
British Airways
Greenway
Ingham
Marks & Spencer
Ugland
Wyndeham Press

■ WEDNESDAY NOVEMBER 9
COMPANY MEETINGS:
Adwest, Dorchester Hotel, W., 12.00
DCS Grp., Painters Hall, 9, Little Trinity Lane, E.C., 12.00
FII Grp., Westbury Hotel, Conduit Street, W., 12.00
Isotron, Howard Hotel, Temple Place, Strand, W.C., 12.00
Thorpe (FW), Merse Road, North Moons Moat, Redditch, Worcs., 3.15

BOARD MEETINGS:
Finals:
Fenner
Villiers Grp.
Interims:
Amersham
Cable & Wireless
Chamberlin & Hill
Electrocomponents
Hambro Insurance Services
Yates Bros Wine Lodges

■ THURSDAY NOVEMBER 10
COMPANY MEETINGS:
Mucklow (A & J), Chamber of Commerce, Edgbaston, Birmingham, 11.00
Sinclair (Wm), White Hart Hotel, Bailgate, Lincoln, 11.00
Thorntons, Assembly Rooms, Derby, 10.30

BOARD MEETINGS:
Finals:
Burton Grp.
Honeysuckle
Orb Estates
Interims:
Appleby Westward
Bank of Ireland
British Telecom
Cranswick
Drayton English & Int. Tst.
Kleinwort Emerging Markets Tst.
London Insurance Market Inv. Tst.
Northumbrian Water
Oxford Instruments
Parkland
Porter Chadburn
Royal Insurance
Scottish Power
Somic
Staveley Inds.
Umeco
Warner Howard

■ FRIDAY NOVEMBER 11
COMPANY MEETINGS:
Dalgety, Centrepoint, 103, New Oxford Street, W.C., 11.30
PizzaExpress, 9, Bow Street, Covent Garden, W.C., 9.30
Tor Inv. Tst., 107, Cheapside, E.C., 12.00

BOARD MEETINGS:
Finals:
Mercury Keystone
Ramus Hldgs.
Interims:
Prowting

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

THE DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

The theme for the 1995 prize, worth not less than £3,000, is: DOES FREE TRADE THREATEN THE ENVIRONMENT?

Applicants, aged under 35, of any nationality, should submit up to 1000 words in English on this subject, together with a brief c.v. and a proposal outlining how the award would be used to explore this theme further.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the *FT*.

CLOSING DATE JANUARY 6 1995

APPLICATIONS TO:
ROBIN PAULEY, MANAGING EDITOR
THE FINANCIAL TIMES (L)
NUMBER ONE SOUTHWARK BRIDGE
LONDON SE1 9HL

CONFERENCES & EXHIBITIONS

NOVEMBER 9
Polish Business Day
CBI Conference, supported by the DTI, designed to provide companies with practical information on specific trading or investment opportunities. Programme includes keynote address by Prime Minister Pawlak, presentations by senior Government representatives, together with sectoral workshops and networking opportunities.
Contact: Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24h fax-on-demand: 071 240 1248
LONDON

NOVEMBER 15
Equity Finance for European High Growth Companies: The Case For EASDAQ
A one day conference. Speakers from throughout Europe and US including European Commission, European Venture Capital Association and NASDAQ.
Contact City & Financial Conferences
Tel: 0276 856966 Fax: 0276 856566
LONDON

NOVEMBER 15/16
Practical Dealing course - Money market
Training in traditional Cash markets and short term derivatives dealing - risk identification and evaluation, product pricing, position management - opportunities to test theories learnt in dealing simulation and practical exercises. For Corporate treasury personnel and bank dealers. £480 + V.A.T.
Lywood David International Ltd.
Tel: 0959 565820 Fax: 0959 565821
LONDON

NOVEMBER 15-16
Business Performance Measurement:
Transforming corporate performance by measuring and managing the drivers of future profitability. This two-day conference explores the relevance and practicability of developing new "corporate dashboards", which include non-financial indicators, such as customer satisfaction, quality and benchmarking.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

NOVEMBER 16
Essential Computer Contracts
One-day conference that will update you on the fundamental issues of computer contracts. Topics include software licences, escrow, intellectual property issues, "get-out" clauses and maintenance contract hazards. Part of a three-day series on computer contracts.
Contact: European Study Conferences
Tel: 44 71 386 9322
LONDON

NOVEMBER 16/17
The Digital Information Revolution
Market Opportunities for Multimedia created by the Superhighway
A major high-level, interactive industry/Government Conference, providing the first opportunity for senior representatives from commerce and industry to address the key issues with Government participation in an open forum.
Contact: Julia Moulton, Status Meetings
Tel: 01730 266544
LONDON

NOVEMBER 17
Advanced Computer Contracts and Drafting Workshop
This one-day intensive programme combines detailed information on advanced computer contract topics with a practical approach to drafting. Samples of software licences and hardware purchase agreements provided. Part of a three-day series on Computer Contracts.
Contact: European Study Conferences
Tel: 44 71 386 9322
LONDON

NOVEMBER 17
Kenya
CBI conference plus workshops, in association with Standard Chartered Bank, considers current developments, opportunities and future prospects for investors and exporters. Keynote address by President Daniel T arap Moi and speakers from the high powered delegation of Ministers and senior officials.
Contact: Nicola Martin, CBI Conferences
Tel: 071 379 7400
24 hr fax-on-demand: 071 240 1248
LONDON

NOVEMBER 17
EMU in a Multi-Tier Europe
EMU is back on the agenda for the 1996 IGC. Can Britain opt out? This conference, hosted by Salomon Brothers Int., considers these issues and the considerable problems of conversion to a single currency. Speakers include: Karl Lamers MdB, Giovanni Ravasio, Director General, EC, Giles Radice MP
Contact: Federal Trust
Tel: 071 259 9990 Fax: 071 259 9505
LONDON

NOVEMBER 19-20
The National Classic Motor Show
The 'Friendly' Classic Car Show, where the car clubs take centre stage. Massive Indoor Autojumble, Car Club Displays, Rally Mini Cooper S rebuild and a Special Stage of the Millers Oils RAC International Historic Rally (20th only). Roger Clark, Britain's most famous rally driver, will officially open the show.
Enquiries: Roger West - Centre Exhibitions
Tel: 0121 767 2683
NEC, BIRMINGHAM

NOVEMBER 21
A Guide to Swaps in Practice
Swaps are a powerful financial tool with large potential gains or losses. Many companies have quietly profited from their use. Course explains what Swaps are, how they work when they should be used and how controlled.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

NOVEMBER 21 & 22
Third Central Banking Conference
Features leading speakers from the central banks of China, India, France, Hungary, Finland, Austria, Poland, Venezuela and The Bank of England, EMI and IMF. Sponsors The World Gold Council, Barclays Precious Metals and Clifford Chance.
Details: Cityforum Ltd
Tel: 0225 466744 Fax: 0225 442903
LONDON

NOVEMBER 21-22
Business Process Re-engineering (BPR)
Continuing series of seminars for managers charged with designing and implementing BPR initiatives. Presented by leading US practitioner and BPR author. Proven 'how-to-do-it' implementation guide illustrated with case studies and workshops. Course book also available. Over 50 organisations in the private & public sectors have already attended.
Contact: Richard Parris, Vertical Systems Intercede Ltd
Tel: +44-455-250266 (24 hours)
UNIVERSITY OF WARWICK

NOVEMBER 21 & 22
FT-The Petrochemicals Industry - Prospects for the Mid-1990s and Beyond
Arranged in association with Chemical Matters, this major Financial Times forum will discuss prospects for this key industrial sector.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

NOVEMBER 21-25
Applied Creativity in Management (ACIM)
Rapid change makes much of today's 'received wisdom' a recipe for tomorrow's disasters. ACIM Seminar members learn to recognise & eradicate obsolete ways to thinking & acting. They learn to identify current/future critical issues and to generate & implement effective solutions to their real-life problems & opportunities. The impact is life-long.
Contact: Dr Harry Shearing, IMODI Ltd
Fax: 0734 509262; Tel: 0734 471263.
LONDON

NOVEMBER 22
Political Risk Outlook for the Oil Industry in 1995
The oil industry has become well experienced in evaluating the risks it faces in its business, particularly when planning major new investment. Yet the greatest uncertainties which affect the security of supply and price and which may fundamentally change the economics of new projects are political risks.
Contact: The Institute of Petroleum, Conference Department
Tel: 071 467 7100
LONDON

NOVEMBER 22/23
Introduction to Derivatives in Treasury risk management
Training course covering treasury derivative markets. Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers, systems and support personnel. £480 + V.A.T.
Lywood David International Ltd.
Tel: 0959 565820 Fax: 0959 565821
LONDON

NOVEMBER 23
Hong Kong: 2001
Half-day seminar demonstrating Hong Kong's key role as an economic force next century and an increasingly important gateway to China and the region. Speakers include The Rt Hon Michael Heseltine MP and Mrs Anson Chan, Chief Secretary, Hong Kong.
Contact: Mark Keenan, DTI
Tel: 071 215 4829 Fax: 071 215 8797
LONDON

NOVEMBER 23
New Regulations on Transport of Dangerous Goods
CBI Conference includes presentations and case studies on how companies are preparing to meet the requirements of new UK legislation in response to the European Directive and the ways that the regulations will be controlled and enforced.
Contact Sandra Aldred, CBI Conferences
Tel 071 379 7400
24 hr Fax-on-demand 071 240 1248
LONDON

NOVEMBER 23-24
Commercial Parallel Processing
Experiences and Practice
Speakers from Churchill Insurance, WH Smith, Mercury Communications, and Humberside County Council amongst others will discuss the benefits and their experiences of this significant technology, which allows scalable low cost computers to be expandable to very high performance in an office environment.
Contact: Hattie Park, IBC Technical Services Ltd
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

NOVEMBER 24
A User's Guide to the Yellow Book
The London Stock Exchange Listing Rules (Yellow Book) is essential for anyone involved with listed company transactions, e.g. Corporate Financiers, Financial Directors, Brokers, Lawyers and Accountants. Course provides a complete practical review of the key areas.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

NOVEMBER 24
Computer Contracts: The New EC Rules
An important one-day conference for both the public and private sector that will update you on the new EC rules on public procurement of computer technology. Part of a three-day series on Computer Contracts.
Contact: European Study Conferences
Tel: 44 71 386 9322
LONDON

NOVEMBER 24
Israel - Trade & Investment in an Emerging Market
International conference in association with Israeli Embassy. KEYNOTE SPEAKER YOSSI BEILIN. Topics cover the Economy, Investment, Privatisation Opportunities, Major Capital Projects and Case Studies.
INTERFORUM
Tel: +44 (0) 71 386 9322
Fax: +44 (0) 71 381 8914
LONDON

NOVEMBER 24/25
FT Manchester Postgraduate Fair
This is the first postgraduate fair to be held in Manchester. This fair will provide exhibitors with a unique opportunity to attract the highest calibre of students for postgraduate courses. Booking deadline for exhibitors - October 21.
Contact: Kay Day at Manchester
Tel: 061 275 3952
MANCHESTER

NOVEMBER 25
The 1994 CBI Lead Body Conference
This years conference addresses the key challenges now facing the NVQ network. Representatives of NCVQ and Government will identify areas of current policy development and the issue of the new Occupational Standards Councils will be examined.
Contact Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24hr Fax-on-demand 071 240 1248
LONDON

NOVEMBER 28
The IMRO Rules: A Guide For Compliance
For Directors and Compliance Officers who want to review the IMRO Rules and their application. Conduct of Business, Client Agreement, Dealing Obligations, Client Money, Money Laundering, etc. included.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

NOVEMBER 28-29
Global Emerging Markets Investment Management
Major International conference on global emerging debt and equity markets looking at CIS, Eastern Europe, Africa, the Mediterranean Rim; Asian and Indian Subcontinent, Latin America and the Caribbean. Programme designed for international portfolio investors and asset allocators and emerging markets specialists.
Contact: Alison Elgar, Dow Jones Telerate Ltd
Tel: 071 832 9532 Fax: 071 353 2791
LONDON

NOVEMBER 28 & 29
City Intensive Seminar
Sponsored by THE CORPORATION OF LONDON and KPMG, this briefing covers the structure, markets, flow of funds, regulation and world position of the City. Designed for recent entrants, corporate finance and treasury staff and overseas financial executives.
Contact: Cityforum Ltd
Tel: 0225 466744 Fax: 0225 442903
LONDON

NOVEMBER 29-30
Managing Corporate Transformation:
The UK's premier event on planning, implementing and sustaining organisational and cultural change. This two-day conference includes frank discussion of why so many initiatives fail and explores proven methods for achieving critical buy-in and support for new organisation structures and working practices.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

NOVEMBER 28-30
Fund Management Overview
Provides a complete overview of what Fund Management involves including types of investment, their applications and returns, portfolio construction, etc. Aimed at non-specialists working with Fund Managers. No prior knowledge needed.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

NOVEMBER 30
A User's Guide to the City Code
The City Code on Takeovers and Mergers defines the roles for offerer and offeree companies in both takeover and substantial acquisition situations. Course details the rules and their applications for Corporate Financiers, Brokers, Bankers, Financial Directors, etc.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

NOVEMBER 30
Pakistan Today - Prospects for British Business
CBI conference includes keynote addresses by Prime Minister Benezir Bhutto and Michael Heseltine, presentations by senior Pakistan Government officials and UK investors and exporters, together with sectoral workshops and networking meetings.
Contact Nicola Martin, CBI Conferences
Tel 071 379 7400
24 hr Fax-on-demand 071 240 1248
LONDON

DECEMBER 1
Futures & Options Overview
A comprehensive overview of traded Futures & Option assuming no prior knowledge. What are they? How do they work? When should they be used etc. Ideal for non-specialists managers and staff.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

DECEMBER 2
Currency Risk Management Workshop
Understand and Identify exposures, and learn the techniques of currency risk management. Spot and Forward FX, Standard and 'Exotic' Currency Options, Zero Premium Strategies, Currency Swaps. £275 1 DAY
Contact: Fairplace Banking & Financial Training Tel: 071 329 0595
LONDON

DECEMBER 5
Dilemma of Choice - A Working Conference with Charles Handy
For senior managers concerned about how they manage personally the difficult balances between value and results involved in today's organisations. Also with Andrew Foster, Martin Mays-Smith, Greg Parston, Charles Pollard and Barabara Young.
Office for Public Management
Tel: 071 833 1973 Fax: 071 837 6581
QEII CENTER, LONDON

DECEMBER 5
The SFA Rules: A Guide For Compliance
For Directors and Compliance Officers who want to review the SFA Rules and their application. Emphasis given to the Investment Services Directive as well as Conduct of Business, Monitoring and Enforcement Procedures, etc.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

DECEMBER 8
Competition in the Gas Market
A one day conference. Speakers include Tim Eggar MP, Minister for Industry and Energy; Clare Spottiswoode, Director General of OFGAS and leading industry figures from amongst others British Gas and Transco.
Contact City & Financial Conferences
Tel: 0276 856966 Fax: 0276 856566
LONDON

DECEMBER 6 & 7
Lobbying The European Union
This conference is addressed to those who know something of Brussels and need to stay up to-date with the changes that are currently taking place.
Further details from International Professional Conferences Ltd
Tel: 061 445 8623
LONDON

DECEMBER 7
Advanced Software Solutions in Manufacturing and Engineering
Seminar for business and technical managers showing use of practical applications of logic programming software in manufacturing and engineering, including problems of intelligent scheduling. Leading international companies present state-of-the-art systems. Includes panel discussion and vendor displays.
Contact: Al Roth, tel: 0253 358081
LONDON

DECEMBER 7-8
Corporate Finance Overview
A review of the instruments and techniques of Corporate Finance for those with no knowledge. Designed for Bankers, Finance Directors, Brokers, Lawyers, Accountants, IT specialists working with Corporate Financiers.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

DECEMBER 7-8
Succeeding with Teams:
practical strategies for designing, implementing and driving the team-based organisation. An international two-day conference specifically designed to help senior executives understand the fundamental issues involved in designing and implementing a team-based organisation.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

DECEMBER 8
The UK Economy
Prospects up to and beyond the next General Election.
This Henley Centre Conference is our annual look at the UK Economy and its prospects for the medium term.
Cost: £350 + VAT
Contact: Anna Harman at The Henley Centre Tel: 071 353 9961
LONDON

DECEMBER 8
Dispute Resolution in the International Oil and Gas Industries
This conference will consider recent interest within the international oil and gas industries in dispute resolution and arbitration in respect both of disputes within the industry and of external disputes which affect the industry, such as those regarding territorial jurisdiction.
Contact: The Institute of Petroleum, Conference Department
Tel: 071 467 7100
LONDON

DECEMBER 12-14
Smart Card Europe 94
2 day conference plus ½ day introductory tutorial
The prominent speaker panel will discuss the use of Smart Cards in application areas such as electronic purse schemes, motorway tolling and transport ticketing, GSM mobile phones, Mondex, subscription TV and mobile banking. Plus essential information about current and future standards and security issues.
Contact: Hattie Park,
IBC Technical Services Limited
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

DECEMBER 13
Advanced Corporate Finance
A course on the applications and more advanced techniques of Corporate Finance for those with a basic knowledge. Ideal for Bankers, Corporate Financiers, Treasurers, Lawyers and Accountants who are working or will work in Corporate Finance.
Details: Investment Education plc
Tel: 061-228 2400 Fax: 061-228 2440
LONDON

DECEMBER 13
Advanced Documentary Credits and Trade Finance
An intensive one-day conference that looks at the key issues around UCP 500, focuses on Letters of Credit, EDI Bills of Lading and forfaiting, and reviews the treatment of fraud in documentary credit transactions.
Contact: Interforum Services Ltd
Tel: 44 71 386 9322
LONDON

DECEMBER 13
Energy Seminar - Transition or Maturity? A Review of Current Policy and Development
This CRI seminar examines recent regulatory reviews, competition development, consumer interests and European energy policy. Speakers from OFGAS, SWEB, NERA, British Gas, Electricity Pool, Gas Consumers Council, IEA.
Cost £299 + VAT
Contact: Leigh Sykes, CRI
Tel: 071 895 8823 Fax: 071 895 8825
LONDON

DECEMBER 20-21
Increasing Business by Telephone
December 20 - Incoming Call
December 21 - Outgoing Call
Whether dealing with incoming enquiries or proactive sales calls to existing or potential customers, delegates learn how to maximise the potential of every call.
£195 + VAT per day inclusive of materials and refreshments. Book both days together for same delegate for £50 reduction - £340 + VAT.
Contact: STRUCTURED TRAINING 0926 337621
LONDON

JANUARY 26 1995
Strategy Update
In today's increasingly complex and hostile markets it is no longer sufficient to rely on past experience. Managers must think strategically when developing and implementing plans which will impact their company's competitive position. Yet most managers devote less than 3% of their time to strategy development. This seminar aims to redress the balance.
Contact: Elaine Pasocki at Cranfield School of Management
Tel: 0234 751122 Fax: 0234 751070
CRANFIELD

JANUARY 31
Strategic Reward Policies A critical factor for business success
This practical programme for senior executives will show how linking reward policies to strategic objectives can have a measurable impact on the successful implementation of corporate strategy. Run by Cranfield School of Management and The Wyatt Company.
Contact: Jane Reed Tel: 0234 751122
The Institute of Directors.
LONDON

EXHIBITION

DECEMBER 1-4
EXPO-Pakistan: Trade Fair
A unique opportunity for business contacts and to see the extensive array of Pakistan's products: textiles, jewellery, ceramics, sanitaryware, onyx, giftware, carpets, sports goods, hand-crafted furniture etc.
Contact: Mr M Athar Tahir,
Pakistan High Commission
Fax: 071 235 8731
10.00 A.M. to 6.00 P.M. daily
Admission free.
BARBICAN, LONDON

INTERNATIONAL

NOVEMBER 14 & 15
FT-Doing Business with Hungary - Investment Prospects Re-Appraised
Following the election of a new Government, this major Financial Times forum will provide a timely opportunity to appraise Hungary's attractiveness as location for foreign direct and portfolio investment.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
WARSAW

NOVEMBER 24 & 25
Offshore Trust Administration/ Offshore Trusts & Trustees
IPC have arranged two one-day conferences on related aspects of the offshore world, which compliment each other perfectly, but which can be attended separately if desired.
Further details from International Professional Conferences Ltd
Tel: 061 445 8623
JERSEY

NOVEMBER 29 - DECEMBER 1
10th World Airports Conference
This conference will consider the two big issues currently facing airport planners: Airport Capacity and Development Funding. Papers presented on new airports: efficient use of existing airports: competition to keep facilities in balance with demand and advantages/disadvantages of privatisation. Also latest airport developments in Pacific Rim, South Africa and Europe.
Contact: Carol Chin, Institution of Civil Engineers
Tel: +44 (0)71 839 9803/2
Fax: +44 (0)71 233 1743
HONG KONG

DECEMBER 5-6
Competitive Intelligence
Seminar for managers who want to learn how Competitive Intelligence supports both operational effectiveness and strategic positioning. Topics include aims and role of intelligence in firms, collection methods, analytical techniques, organisation, and counter-intelligence. Principal lecturers are former professional intelligence officers.
Contact: Business Research Group
Tel: 022 929 1900 Fax: 022 788 0824
GENEVA

JANUARY 19-20 1995
Security Export Control in the Russian Federation and Worldwide
High-level experts in export control from the Russian Federation, U.S.A., France, Great Britain, European Union, from industry and international export organisations will present their view of the importance of export control in today's world.
Moscow Olympic Penta Hotel, Moscow, Russian Federation.
Contact: ISSC +49-(0)228-6483-126
MOSCOW

ARTS

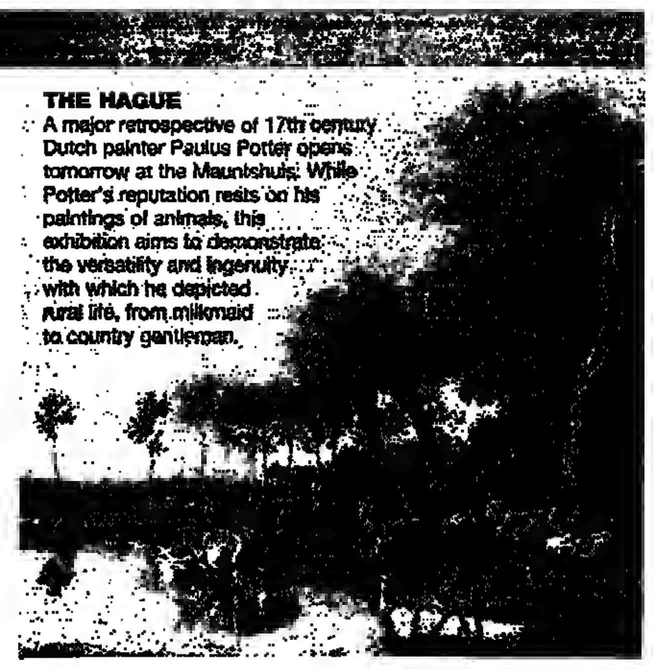
OPENINGS

LONDON
In e hectic week of London theatrical openings, Stephanie Cole (left) comes to the Comedy Theatre tonight in "A Passionate Woman"; Brian Cox comes to Riverside Studios on Thursday in his own production of Ibsen'a "The Master Builder"; and on the same night Mark Rylance and Michael Rudko (swapping the roles of brothers et alternate performances) come to the Donmar Warehouse in Sam Shepard's "True West".

NATIONAL THEATRE, LONDON
At the Cottesloe, Christopher Hampton's version of "Alice's Adventures Under Ground" opens on Thursday, devised in collaboration with the choreographer/director Martha Clarke.

NEW YORK
The first night of the new staging of the Metropolitan Opera's 1994-5 season ie Shostakovich's "Lady Macbeth of Mtsensk", is on Thursday. It marks the Met debut of British producer Graham Vick and his designers Paul Brown and Nick Chelton. Maria Ewing singe the role of Katerina, and the conductor is James Conlon. Other Shostakovich events at the Lincoln Center this month include a complete cycle of the quartets played by the Borodin Quartet.

COVENT GARDEN, LONDON
On Thursday, the Royal Ballet shows the first of two programmes celebrating the work of Sir Frederick Ashton, including a revival of his ravishing "Daphnis and Chloe", at the Royal Opera House.



THE HAGUE
A major retrospective of 17th century Dutch painter Paulus Potter opens tomorrow at the Mauritshuis. While Potter's reputation rests on his paintings of animals, this exhibition aims to demonstrate the versatility and ingenuity with which he depicted rural life, from milkmaid to country gentleman.

The siege of the Barbican

Antony Thorncroft examines the plight of Detta O'Cathain as she retreats into her bunker

If you arrive late, or leave early, from a concert or a play at the Barbican Centre in the City of London, you may well see a lone female figure surveying the empty foyers, checking out the bars, the cafés and the toilets, like a cross between a ghost and o night manager. It is Baroness Detta O'Cathain, the director of the centre, wbose future, under intense speculetion for two years now, seems increasingly parlous.

Last week the centre started a search for a deputy director, but not just any old depnty. This new appointee will also be responsihle for artistic programming and eveotually will replace the Lady berself. It puts the Baroness in a virtually impossible position and she is resigned to not seeing out the remaining three years of her contract. "I'm not going to walk out. Whether I will be here in a year's time I do not know. If the ideal person came in and bedded down rapidly it could be a matter of months".

O'Cathain's plight is the inevitable consequence of a culture clash. She arrived in 1990 to lick the Barbican into financial shape. Under her predecessor, Henry Wrong, it had been a happy, easy going place, where the bottom line lost out in the battle for artistic excellence. A committed Thatcherite, O'Cethain had the backing of the City Fathers, wbo hail out the Berbican with £13.5m a year in suhsidy, to knock heads together.

She has succeeded only tco well. "I have always stayed within budget" she boasts. But there has been more blood around the place that et the end of *Hamlet*. Around 50 of the 220 staff have left, and relations with tbose remaining, worried ebout their jobs and the centre's future, are not good. The situation has deteriorated rapidly since the summer wheo O'Cathain sacked her artistic director, Kenneth Richardson, a few months after appointing him.

This has forced her to take e more active role in programming at the Barbican Hall, with some unhappy consequences. A series of three concerts designed to introduce a new audience to classical music attracted attendances of less than 30 per cent and lost money. Instead of the centre promoting just over 20 performances a year at the hall, with outside producers like Raymond Gubbay filling the gaps and taking the risk, it has had to find shows for almost 100 nights, e daunting task at a time when concert ettendances around the country have fallen sharply.

So strong had the murmurings become in recent weeks that Ceoffrey Lawson, cbairman of the Barbican Centre committee, and a firm champion of Detta O'Gathain, was forced to investigate. He asked the heads of the main users of the Barbican – Adrian Noble of the RSG, Clive Gillinson of tbe LSO, Raymond Gubbay, and the Guildhall School of Music – for their views.

They were not encouraging ebout O'Cathain's prospects. They spoke of a lack of direction in the Barbican, shortcomings in artistic vision and e lack of motivation end support among staff. There was also concern about the Baroness's part-time directorships and her involvement in the House of Lords. Lawson had no alternative but to launch the suddeo hunt for a deputy-come-replacement. He has also reassured the staff by saying there will be no more job losses – a public indication that, for the first time, O'Cathain has lost the backing of the City.

It is not surprising tbat she feels hard done hy and has retreated into her hunker. She has discovered the tough way that practitioners in the arts are sensitive and self-regarding and have an exaggerated opinion of their creative contrihution. In her world, the balance sheet rules; in theirs, it is the emotional experience.

She was brought in to administer the centre – to improve the catering facilities, to make the place more agreeable to visitors, to raise its reputation and bring in sponsors – but sbe just could not keep her hands off the artistic planning when she discovered that at certain concerts each of the few attenders was heing subsidised at the rate of £54 a bead.

Such interfereoce has contributed to her current plight. In many ways the Barbican is a ıoore attractive venue. Little can be done about its hrutalist exterior and depressing approaches, but inside tbe ambiance, the catering and the free foyer eotertainment make it quite jolly.

O'Cathain laboured hard to improve the acoustic in the Barbican Hall. She has helped to attract millions in sponsorship – at last week's opening of the amhitious Everyhody's Shakespeare Festival sbe could claim some credit for the £700,000 raised – and there are few corporate receptions at the centre where she is not oo hand, pressing the flesh.

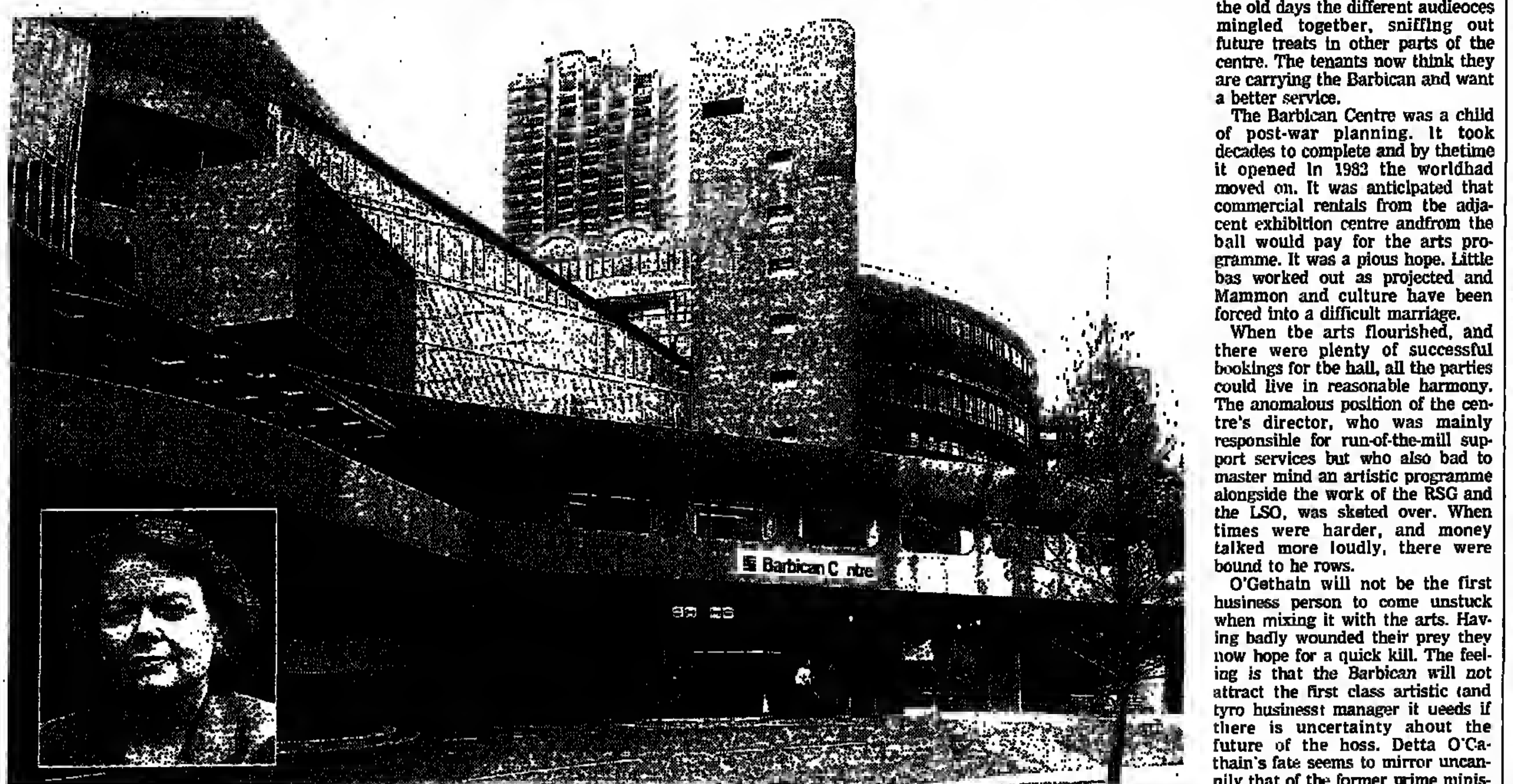
But sbe bad not been prepared to soften her abrasive style, to answer the criticisms that she came to the Barhican from the Milk Marketing Board knowing little about the arts and convinced that they could be managed and marketed like any other product. Her attempts to influence the artistic programming have not been successful, and, without an artistic director, the Barbican faces many dark nights and few major eye catching festivals.

Ironically, it has worked against her that ber two main tenants, the RSC and the LSO, are currently enjoying artistic and financial highs. Both had their problems settling in to the Barbican, but now they are happy and successful they expect the same from their landlady. It matters to them that their mutual home is populated by relaxed staff and contented visitors. An ill attended concert at the Barbican Hall rubs off on the theatre. In the old days the different audieoces mingled togetber, sniffing out future treats in other parts of the centre. The tenants now think they are carrying the Barbican and want a better service.

The Barbican Centre was a child of post-war planning. It took decades to complete and by thetime it opened in 1982 the worldhad moved on. It was anticipated that commercial rentals from tbe adjacent exhibition centre andfrom the ball would pay for the arts programme. It was a pious hope. Little bas worked out as projected and Mammon and culture have been forced into a difficult marriage.

When tbe arts flourished, and there were plenty of successful bookings for tbe hall, all the parties could live in reasonable barmony. The anomalous position of the centre's director, who was mainly responsihle for run-of-the-mill support services but who also bad to master mind an artistic programme alongside the work of the RSG and the LSO, was sketed over. When times were harder, and money talked more loudly, there were bound to he rows.

O'Gethain will not be the first husiness person to come unstuck when mixing it with the arts. Having badly wounded their prey they now hope for a quick kill. The feeling is that the Barbican will not attract the first class artistic (and tyro husinesst manager it ueeds if there is uncertainty ahout the future of the hoss. Detta O'Cathain's fate seems to mirror uncannily that of the former prime minister whose views she so admired.



Under fire: the beleaguered director Baroness Detta O'Cathain

Theatre

Dillane gets to the heartbeat of Hall's Hamlet

Not only is Stephen Dillane's Hamlet tbe fresbest, most interesting, and most peculiar ingredient of Peter Hall's new staging of *Hamlet*, he is also the most modern. The production is curious in containing several dissimilar acting styles, and Dillane's performance makes most of the other key characters – Claudius, Gertrude, Ophelia, Polonius – seem somewhat artificial. We, watching, may not feel that we are in their world, yet we never doubt we are in bis. His performance is close to the one he gave as Prior, the Aids patient in *Angels in America*, and yet here it is far from unstylish. He is alienated from the court about him, but with no Romantic beauty about his alienation. He is ironic, self-critical, witty, passive, but incisive.

I have never heard a Hamlet less concerned with vocal beauty or technique. Fascinating to be hearing him alongside Michael Pennington, wbo bere plays both Claudius and Ghost, and who, 14 years ago, was an exceptionally intelligent Hamlet whose gorgeous vocal virtuosity was geared to sbowing the vast range of Hamlet's thought. Dillane is altogether smaller-scale, less energetic, less varied, but immensely more spontaneous. Very simply, he uses the rhythm of the verse to reveal its heartbeat. The most important thing about him is that we hang easily on his every word. And yet the most striking oddity about him is his voice – dry, unlovely. The dryness is itself expressive; it tells us of Hamlet's detached, sardonic, attitude.

And the voice is the man. This is a hand-on-hip Hamlet, who shrugs, and rolls his eyes in disbelief. (The latter is overdone.) We see the deliberate lack of manly assertiveness, and we see bow absurd be often finds his society. Though it helps *Hamlet* if Hamlet is more visibly a prince, and more evidently capable of virile ardour, these limitations scarcely troubled me while I was in the theatre.

I did miss the bounding scale of Hamlet's thought; Dillane's Hamlet is scarcely a philosopher at all. As for his wit, I wanted yet more; the energy of Hamlet's mind should coruscate. But everything Dillane does is spontaneous. When it comes to self, and family, and court, he reveals, wonderfully, many things in Hamlet – not least his self-loathing. Then, towards the end, he finds the right inner calm.

This *Hamlet* is not, bowever, the best vehicle for this Hamlet. Lucy Hall has designed au attractive cyclorama of sea and clouds (and we hear the tbumping waves and whistling wind), while the centre of the stage is a forward-tilted grey circle. All that, obviously, is Nature, and is meant to clash witb the court – for which long-stranded red curtaios descend, and red furniture is hrougbt on. But tbe court is distractingly vulgar. And there is pointless, dull muzak.

In theory, I like the way that the presence of Pennington and Donald Sinden (Polonius) supplied the production with an immeose wealth of Sbakespearian experience. Some of their lines have marvellous force, such as Glaudius's first fierce stah of guilt, "How smart e lash that speech doth give my conscience!," and Polonius's "I do know, Wheo the hlood hurns, how prodigal the soul Lends the tongue vows..."

Everything Pennington does is intelligent; and Sinden gives an interestingly punitive edge to his scenes with Ophelia. But there is too mucb contrivance about most of Penningtoo's utterance; and Sinden's standard vocal tricks – especielly the prolonged vowels end final consonants – remind us of his canny old actorliness, at the expense of Polonius to us.

Opbelia is probably tbe most impossible role in Shakespeare, and Gina Bellman is not the first to have been tripped over by it.

Yes, she is pretty; yes, she has preseoce. But, in her effort to show us the perplexed suffering and repression of Opbelia's early scenes, she already seems precious and insincere. That ber mad scenes (menstrual blood staining ber dress, spastic gestures, pigeoo-toed mock-ballet steps) are all artifice is scarcely surprising. Gwen Taylor's Gertrude, brightly superficial at first, gets hetter, as events force her to grow more honest; but with no especial depth.

Althougb this production has been touring Britain for months, it feels under-prepared. I never believed that Polonius, Laertes (Tom Beard), and Opbelia were one family; or that Gertrude and Claudius could bave slept together; or that Hamlet and Ophelia had been in love; or that this Gertrude and Hamlet were mother and son.

A furtber problem is that the Gielgud Theatre (formerly the Globe) does not have the kind of comfortable seating to belp us through a play as long as *Hamlet*. (How ironic; tbe names Gielgud and *Hamlet* sbould go together like bread and hutter.) The production lasts considerably longer than four hours. A second interval would help, hut a more integrated production would help much better.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE

BERLIN

OPERA/DANCE
Deutsche Oper The main event this week is the first night on Sat of a new production of Poulenc'e Dialogues des Carmélites, conducted by Jiri Kout, staged by Günter Krämer and designed by Gottfried Pilz, with a cast headed by Rita Gorr, Karan Armstrong, Alexandra von der Weth and Lucy Peacock (repeated Nov 17, 23, 25, 29, Dec 1). Repertory also includes Aida (with Julia Varady) and a Balanchine programme. Wagner'a Ring will be performed on Nov 16, 20, 27 and Dec 4, and again on Dec 9, 11, 14 and 18 (341 0249)
Staatsoper unter den Linden A new staging of three Balanchine ballets, including Symphony in C, opens on Sun. The new Barenboim-Kupfer production of Siegfried can be seen on Nov 9, 16 and 20, with a cast headed by Siegfried Jerusalem/Reiner Goldberg, Falk Struckmann, Graham Clark and Deborah Polaski. Repertory also includes Telemann's Orpheus and Tosca starring Suzanne Murphy and Sergei Larin (200 4762/2035 4494)

CONCERTS
Philharmonie Tonight: Daniel Barenboim conducts Scharoun Ensemble in Schoenberg's chamber version of Mahler's Das Lied von der Erde, with soloists Marjana Lipovsek and Peter Schreier. Tomorrow: Frans Brüggen conducts Orchestra of the 18th Century in works by Rossini, Schubert and Mendelssohn. Wed, Thurs and Fri: Simon Rattle conducts Berlin Philharmonic Orchestra in works by Hindemith, Berg, Debussy and Ravel. Claudio Abbado conducts Brahms and Beethoven on Nov 17 and 18, and concert performances of Elektra on Nov 30 and Dec 4 (2548 8132)

JAZZ
The Berlin Jazz Festival runs from Nov 16 to 20 at Haus der Kulturen der Welt. Guest artists include Elvin Jones Jazz Machine, Randy Weston African Rhythms Quintet, Count Basie Orchestra, Phil Woods and J.J. Johnson Quintet (2548 9254)

NEW YORK

THEATRE
● Sunset Boulevard: the show has finally reached Broadway, with Glenn Close as Norma Desmond. Now in previews, opens Nov 17 (Minskoff Theatre, 200 West 45th St, 869 0550)
● Show Boat: Harold Prince's new production of the 1927 Jerome Kern/Oscar Hammerstein musical is the first show on Broadway to cost $75 a ticket. It is a huge hit which will run and run - but in her FT review, *Karen Fricker said that* despite its musical excellence, the production was emotionally empty (Gershwin, 51st St west of Broadway, 307 4100)
● Love! Valour! Compassion!: eight men gather at an idyllic country home over the course of three holiday weekende, in tha latest play by Terrence McNally - author of numerous well-regarded pleys (Manhattan Theatre Club, 131 West 55th St, 581 1212)
● Angels In Amarica: Tony Kushner'e epic play conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evaninge. Catch it now before the show closes at year-end (Walter Kerr, 219 West 48th St, 239 6200)
● Three Tall Women: a poetic play by Edward Albee, dominated by the heroic performanca of Myra Carter. She, Jordan Baker and the droll Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, 2162 Broadway at 76th St, 239 6200)
● A Cheever Evening: A.R. Gurney'a play intertwines elements from 18 stories by John Cheever to create a new work, paying homage to one of his influences whila showing Cheever'a work in a new light (Playwrights Horizons, 416 West 42nd St, 279 4200)
● An Inspector Calls: J.B. Priestley'e 1945 mystery thriller in a atunning re-interpretation by Stephen Daldry, first seen at Britain's National Theatre (Royale, 242 West 45th St, 239 6200)
● Uncommon Women And Others: a revival of Wendy Wasserstein's play about frienda at a small New *England women's college, who meet* for tea and then for a reunion six years leter (Lucille Lortel, 121 Christopher St, 239 6200)
● Jelly Roll!: Vernel Bagneris etars in e musical show about jazz legend Jelly Roll Morton (47th Street theatre, 304 West 47th St, 265 1086)
● Carousel: Nicholas Hytner's bold, beautiful production launches the 1945 Rodgers and Hammerstein musical towards the 21st century (Vivian Beaumont, 150 West 65th St, 239 6200)
● Kiss of the Spider Woman: pop star and ex-Miss America Vanessa Williams has taken over the title role in the long-running Kander and Ebb musical (Broedhurst, 235 West 44th St, 239 6200)

OPERA
Metropolitan Opera Shostakovich's Lady Mecbeth of Mtsensk, opening on Thurs, is the first new production of the season. James Conlon conducts a staging by Graham Vick, with designs by Paul Brown. The cast is headed by Maria Ewing, Mark Baker and Sergei Koptchak (further performances Nov 14, 18, 22, 26, 30, Dec 3, 7, 10). This week's repertory elso features Rigoletto tomorrow and Sat with Alfredo Kraus and Sumi Jo, and Cev and Pag on Wed with Vladimir Atlantov as Canio (362 6000)

DANCE
New York City Ballet'e winter season runs from Nov 22 to Feb 28 at New York Stete Theater. The opening night gala features a new pas de deux by Peter Martins. (307 4100/870 5570)

CONCERTS
Carnegie Hall Nancy Wilson gives *tonight's concert.* Philippe Herreweghe conducts Orchestra of St Luke's and La Chapelle Royale on Thurs in Stravinsky's Mass and Feure's Requiem (247 7800)
Avery Fieher Hall Charles Dutoit conducts New York Philharmonic Orchestra tomorrow in works by Prokofiev, Ravel and Respighi, with violin soloist Glenn Dictorow. On Thurs, Fri and Sat, Hugh Wolff conducte Albert, Prokofiev and Dvorak, with piano soloist Leon Fleischer (875 5030)
Alice Tully Hall The Borodin Quartet's cycle of Shostakovich etring quartets continues on Nov 13, 16 and 20 (875 5050)

JAZZ/CABARET
Blue Note Sheila Jordan Trio can be heard tonight. Stanley Jordan is in residence for the rest of the week (131 West 3rd St, 475 8592)
Algonquin Hotel Weslia Whitfield bringe her droll wit and agile voice to bear on two shows, including songs by Rodgere end Berlin. Nightly from 9pm (59 West 44th St, 840 6800)
Gefe Carlyla Bobby Short continues to hone respectful but incisive takes on every standard under the aun. Nightly from 8.45pm (35 East 76th St, 570 7189)

PARIS

DANGE
● The Kirov Ballet gives a final performance of La Fontaine de Bakchisarai tonight at Théâtre des Champs-Elysées, with guest soloist Sylvie Guillem. The Kirov Opera arrives on Nov 23 for a three-week residency (4952 5050)
● The opaning production of tha Paris Opéra Ballet's 1994-5 season can be seen tomorrow, Thurs and Sat at the Bastille (with two final performances next week). It consists of a Balanchine-Robbins programme preceded by e grand spectacle with the entire company. There ie also a young dancers' programme on Nov 13 and 19, coneisting of extracts from classical ballats (4742 5371)
● Trisha Brown Dance Company is in residence from tomorrow till Sat at Théâtre de la Ville (4271 2277)

MUSIC
● Le nozze di Figaro runs till Dec 4 et the Bastille: thie week'e performances are tonight, Wed and Fri. Ivan Fischer conducts a cast including Hakan Hagegard, Lella Cuberli, Andrea Rost, Ferruccio Furlanetto, Eirian James, Anne Howells and Federico Davia (4473 1300)
● A second and final cycle of The Ring can be seen at the Châtelet this week, beginning tomorrow with Das Rheingold. The conductor is Jeffrey Tate and the producer Pierre Strosser. The cast ie headed by Robert Hale, Gabriele Schnaut, Heinz Kruse end Kurt Rydl (4028 2840)
● This week's concerts at Théâtre des Champs-Elysées feature Teresa Berganza on Wed and Wynton Marsalis Septet on Thurs. Nov 22: Giulini conducts the Vianna Philharmonic (4952 5050)

JAZZ/CABARET
American soul singer Mighty Sam McClain is in residence this week et Lionel Hampton Jazz Club. Nov 14-28: J.J. Johnson Ouintet. Music daily from 10.30pm to 02.00am (Hotel Maridien Paria Etoila, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesdey: Austrie, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Chennet: FT Reports 1230

FRIDAY
NBC/Super Chennel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Compelling case for monetary union

PERSONAL VIEW

Economic and monetary union is tbe central part of the project for European unification. For a country to transfer power over its currency to an independent European central bank represents a most far-reaching form of European integration. not least because the central bank's decisions would affect governmental decisions in many other fields of economic and social policy.

The European states linked by monetary union will need to show solidarity in many other spheres. If they were to drift apart on fundamental questions of foreign and security policy, for example, it would jeopardise the consensus needed in the economic field.

Once the fundamental link between monetary and political union is recognised, three important assertions can be made. First, European Union members that form the "core" of monetary union will also be, for the foreseeable future, at the core of political union.

Second, any country that opposes monetary union can also be held to oppose political union, and vice versa. Third, any country that comes out against either of these goals clearly has no interest in the success of the 1996 intergovernmental conference to review progress since the Maastricht treaty. This conference will be important for trying to bring about further improvements in plans for political union, matching the agreements on monetary union made at Maastricht in 1991.

No one can be in any doubt that monetary union is necessary. The D-Mark occupies what some feel to be a dominant position in Europe. As a result, the existing European Monetary System, which is in essence a German one, cannot be a permanent solntion for Europe's monetary arrangements. In the long run, it is unacceptable for other member states to have to acquiesce in monetary decisions made by the Bundesbank.

A recent discussion paper from the Christian Democratic Union/Christian Social Union parliamentary group in Bonn attracted controversy because it postulated the likelihood of a core group emerging in the EU comprising tbose member states ready for monetary union. In reality, however, this statement contained nothing that was new.

Not all 12 members of the EU will be abla to take part in European monetary union (Emu) in 1997, or even after 1999, because thay will not meet the convergence criteria for Emu set down in the Maastricbt treaty. This has already been tacitly acknowledged in recent budgetary projections by Spain and Portugal, at least as far as 1997 is concerned.

After the publication of the CDU/CSU paper, some observers in Britain voiced their hope that France would not join an Emu cora group that included Germany but not other larger EU member states. Some people in Britain even appear to think that this could cause the Emu project to fail – perhaps for good. Sucb an argument flies in the face of reality, however.

Those who cling to national sovereignty are seeking solace in an empty shell

Even if monetary union were limited at first to a small cora, each non-German member would be in a better position than today, since decisions would be taken not hy the Bundesbank but jointly by a European central hank. Any country that meets the convergence criteria, therefore, has an interest in taking part in Emu as soon as practicabla.

Countries that deliberately chose not to take part in such a union would be in a difficult position. If the D-Mark is held to be dominant today, how much more would this apply to a future European currency in a monetary union comprising perhaps eight or 10 present and future member states?

Countries outside Emu would have no say in the decisions of the European central bank. This would be a serious handicap to a country such as Britain which has Europe's largest financial market.

There are other reasons, too, why Germany is interested in monetary union. Germany is no longer capable of, or interested in, exercising some form of European hegemony. Its strength vis-à-vis its European partners – in economic, political or military terms – is not comparable with that of the US vis-á-vis its partners in the Bretton Woods system or Nato after the second world war.

The overwhelming desire of the German political establisbment is to invest the country's strength in the construction of Europe. That fact has not been changed hy the result of the German general elections, even tbough Chancellor Helmut Kohl's majority in the Bundestag has fallen.

If, however, efforts to establish monetary union were to fail, the process of political integration would also come to a halt, at least for the time being. This would have disastrous consequences – not simply for Germany but also, directly or indirectly, for all other EU states.

We Germans, facing various temptations and pressures to adopt a "go-it-alone" policy towards eastern Europe, see – due to the catastrophe of 1945 perhaps a little hit clearer than other European states – the need to learn the lessons of history. Yet the Europe of the future cannot and must not he huilt simply on the lessons of the past. The imperatives of the present are equally compelling, and these call for common European institutions.

The nation states of Europe must face the reality that they are no longer capable of mastering hy ourselves all their external challenges. Those who cling to national sovereignty are seeking solace in an empty shell. In trying to escape from Europe, they are seeking to escape reality. And this is an endeavour which, as everyone knows, is doomed to failure.

Karl Lamers

The outhor is foreign policy spokesman of the Christian Democratic Union/Christion Social Union parliamentary group in Bonn.

A hard act to follow

John Ridding asks whether France's drive to privatise can sustain momentum

As Renault, the motor group, enters tbe home straight on its journey to the stock market, the French government is weighing the next steps in its programme to dispose of much of the state's corporate assets.

Individual investors have until Thursday to confirm orders for shares in the partial privatisation of Renault, but Mr Edmond Alphandéry, the economy minister, is already plotting his next steps. He has lit the fuse for the privatisation of Seita, the state tobacco monopoly, by launching the process to select adviser banks for the sale.

Mr Alpbandéry has also emphasised that the insurance companies Assurances Générales de France and the Caisse Nationale de Prévoyance are on the auction hlock, and tbat industrial partners are heing invited to invest in Groupe Bull, the computer maker.

The preparations reflect the government's strategy of having several irons in the fire. But they also demonstrate the need to maintain momentum in France's ambitious privatisation drive. For 1995, the centre-right administration of prime minister Edouard Balladur is banking on receipts of FFr55bn (£6.5bn) from the sale of state assets, the same target as for this year, and vital to its goal of cutting the budget deficit from FFr301hn in 1994 to FFr275bn.

Maintaining such momentum could, bowever, prove tough. As tha government moves down the list of 21 public-sector groups it selected for sale on taking office last year, the going may become more difficult.

Part of the reason is that the government has set itself a bard act to follow. The first four privatisations – Banque Nationale de Paris, Rhône Poulenc, the chemicals group, Elf Aquitaine, the oil company, and the insurer Union des Assurances de Paris – involved stars of the public sector. Profitable, and familiar to investors through the existence of tradeahle securities, they alipped smoothly into the hands of private investors. The comhined receipts totalled FFr94.4hn, with Elf alone raising FFr34.9hn.

The flotation of Renault, another of the state's prize assets, is also proceeding smoothly. Institutional investors have demanded 15 times as many shares as they had heen allocated. Industry ohservers expect sufficient demand for the 60 per cent of the shares alloted to be sold to individual investors.

It is after Renault, however, and the FFr8bn or so its flotation will bring the state thet the challenges become more complex. This is partly because some of the next candidates for sale are in blighted market sectors and partly because the sale of profitable public-sector companies leaves the government with fewer large, attractive assets. Political sensitivities in tbe run-up to next spring's presidential elections and the depression looming over the stock market may further complicate the task.

Mr Alphandéry is keen that Assurances Générales de France sbould be dispatched as soon as possihle and most industry analysts regard the insurer as an attractive company. But like other insurers, AGF has been hit hard hy market conditions. Its shares have fallen by more than 35 per cent this year, as the value of its bond portfolio has plunged with rising long-term interest rates. CNP, the other insurance company on the block for partial privatisation, has been similarly affected.

"The government is ready to launcb both operations," says one insurance industry analyst, "but it cannot be seen to be flogging off the state silverware too cheaply."

Such considerations are a factor in the decision to start work on Seita. Like AGF and CNP, the tobacco monopoly is potentially attractive, achieving net profits of FFr585m last year, against FFr447m in 1992.

But privatisation may prove politically sensitive, since Seita's Gitanes and Gauloises hrands are, for many, an important symbol of Frencb culture. There is also opposition among trade unions at the company, which have started to mobilise against the sale.

Seita, like several otber companies near the top of the privatisation list, is a relatively small operation. Although the sale of AGF would bring more than FFr15hn, the tobacco gronp is valued at ahout FFr7bn, more than the expected receipts from the partial privatisation of CNP. Bull, still reporting losses, is unlikely to bring significant income, despite the FFr11bn in subsidies it has been granted over the past two years.

The problem facing the government is that big does not mean heautiful. State-owned giants such as Air France and Crédit Lyonnais are incurring big losses and undergoing radical recovery programmes that must be completed before they can be sold.

There are several attractive large companies on the privatisation list. Tbese include Thomson, the electronics group, Usinor Sacilor, the steel company, and Pechiney, the aluminium and packaging concern.

But each has its complications. Thomson may merge its defence and consumer electronics activities before sale. Usinor Sacilor, although back in the hlack after losses of FFr5.7bn last year, must reduca its debt burden of FFr20bn. Mr Jean-Pierre Rodier, who took over as chairman at Pechiney in July, believes the need to return the group to profit and reduce borrowings suggests privatisation in 1996, rather than next year.

If many of the privatisation candidates are not yet in a state of readiness, neither is the market. It is not just the insurance sector which has been hit this year. The CAC-40 index of leading shares has fallen hy 19 per cent since its February peak, depressing the value of privatisation issues. With the exception of BNP, all the privatisation issues are trading below their issue price.

"Investors may have been disappointed," says a broker at one French securities house. "Renault should see strong demand, hut less familiar and less profitable companies may experience a more cantious approach from tha public."

Caution may be compounded by the increased competition for the savings of the French public. Last month, for example, the government launched a scheme to sell 10-year government bonds direct to the public: with a yield of about 7.5 per cent they are proving an attractive investment.

Despite the array of challenges, the French government is sanguine. "The success so far augurs well for the next stages," says one official. He cites strong demand from institutional investors, and says that industrial partners have also shown a healthy appetite for privatisations. The planned invastment in Renault hy Lagardère group, the defence and communications company that helped develop the Renault Espace car, is one example.

Officials play down talk of disenchantment among retail investors. "Privetisation shares have fallen by less than the market as a whola, and investors are aware of the potential upswing," says an aide at the economy ministry.

At the industry ministry, the message is thet the restructuring programmes necessary to prepare the next batch of privatisation candidates will bear fruit. "If you look at Renault, not so long ago it was a sick man of the public sector. It is possible to get the loss-makers into shape and it will be helped by the strong revival in the domestic economy."

Such an assessment is supported by industry observers. "They have the assets, and the political sensitivity of some of the sales will matter less after next spring's presidential elections," says one merchant banker.

One option is to sell a second tranche of shares in Renault, reducing the state's holding to below 50 per cent. Mr Alphandéry has dismissed such a scenario. "We have no plans for a second operation," he says, reflecting official sensitivity concerning the company, a former stronghold of union powar. But Mr Louis Schweitzer, Renault's chairman, hinted at the possibility last week that the flotation represented a step rather than an end in his company's privatisation process.

Should individual investors demonstrate the same appetite for Renault as thair institutional connterparts, Mr Schweitzer's state shareholder may come to agree. As one Paris banker puts it: "If other issues are proving tricky, then a further sale of Renault shares could prove an enticing way of easing a budgetary bind."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Government must play part to achieve endogenous growth

From Mr Robert J Shapiro.

Sir, I follow with interest your discussion of the endogenous sources of national growth. In truth, much of the disagreement seems to concern the political preferences of Kenneth Clarke, chancellor of the exchequer, and others, to which the economics of the matter are largely indifferent.

What can be said with certainty is that national growth rates are affected not only by the capacity of companies and workers to enhance their efficiency, hut also hy their capacities for innovation. In this regard, innovation refers not simply to the development of new physical technologies, but virtually every aspect of the economic process, from identifying or locating oew materials, sources of labour or means of financing and marketing, to reorganising jobs and work places. Endogenous growtb policy involves all factors which contribute to such variegated innovation, as well as to efficiency.

This view will not reassure political promoters on the hard left or the hard right. Higher efficiency requires greater investment, which in turn requires capital-encouraging policies. That includes wbat should seem obvious – sound monetary policy, enhanced access to capital, especially for smaller companies, and cyclical fiscal discipline – but not, as many might like it, lower marginal tax rates on the returns from certain capital (which evidence indicates has little affect on the aggregate net store of capital).

It also involves an enhanced commitment to enlarging the supply of public capital. Professor Robert Barro says as much (Personal View, November 1) when he notes the importance of improving the skills and health of the workforce and the quality of the infrastructure (which, properly chosen, produce returns higher than those from private investment). Also, add to that the store of basic research.

These functions cannot be "privatised" without sacrificing an increment of growth. Put another way, government'a role in national growth is substantial – an investor, not director – for an advanced economy cannot for long raise its underlying growth rate without vigorous public (and private) investment.

Your correspondents are not wrong in suggesting that competition also matters to national growth rates, because (like political parties) companies and workers innovate only when competition forces them to. Regulation whicb impedes competition – for example, laws and rules insulating banks or telecommunications companies from certain sources of competition – makes no sense in a growth programme. This sbould not be confused witb ideological demands to roll hack other forms of regulation, such as health or safety protections, which serve social policy ends and pose no threat to tha competition that drives innovation.

Robert J Shapiro,
vice-president,
Progressive Policy Institute,
518 C Street, NE,
Washington, DC 20002, US

Palestinian enterprise fund would aid stability

From Mr Adnan M Khashoggi.

Sir, I read with interest your editorial, "Whita House and Casablanca" (October 31), regarding the Middle East/North Africa economic summit. I was present at the summit in Casablanca and agree whole-heartedly with the thrust of your comments on the difficulty of creating a large regional structure when there is not a consensus of opinion among the key participants.

Political solutions are insufficient. Grandiose development plans will take too long. In a just and perpetual peace, the powers have to ensure there is individual economic opportunities at the grassroots level of society. This need is most acnte in the West Bank and Gaza.

Palestinians need capital to develop their own small businesses and create jobs. The most effective vehicle I have seen in this regard has been the Enterprise Fund the US government set up to help eastern Europe's transformation. That is why I presented a proposal for a Palestinian Enterprise Fund to the leaders attending the economic summit.

This concept can be put in place quickly and contribute to the stability essential for the region to attract the larger investments that will cement regional relations.

Adnan M Khashoggi,
Paris

Airport tax rates are illogical

From Mr D J McKay.

Sir, May I draw your attention to another problem with the newly-introduced airport tax ("Airlines hit at levy on departures", October 31).

In addition to the confusion over European rates there is the prohlem of douhle levying wbere passengers wisb to make use of the fact that London has five airports. Rates for London-Geneva-London are £5 when travelling in and out of the same airport, hut £10 when flying from Heathrow and returning to Gatwick, or any other comhination.

Where is the logic in this?

Duncan J McKay,
82 Sedgwick Street,
Cambridge CB1 3AL

Public funding unavoidable

From Mr Martin G Richards.

Sir, Whether or not it is desirahle to reduce capital expenditure on roads, I think that very few would argue for a reduction in capital expenditure on transport, as suggested in your report, "Roads budget faces cut of £400m" (October 3). Aoy reduction in the roads budget should be complemented by an increase in expenditure on public transport. While tbe government would like much of that investment to come from the private sector, it is quite clear from the limited progress of the private finance initiative thet the use of public funds is unavoidable.

Martin G Richards,
chairman, MVA Group,
MVA House,
Victoria Woy,
Woking, Surrey GU21 1DD

Pension failing was inability to show what member would receive

From Mr J P Batting.

Sir, Mr M A Bentley (Letters, November 2) seems to have an interestingly topsy-turvy view about company pension schemes. It is true that one of the merits of a money-purchase scheme is that it clearly shows each member's "savings". Equally, its greatest failing is its inability to show what a member can expect to receive at retirement. It was this sbortcoming which was put to such good use by some personal pensions salesmen who were able to hoodwink huge numbers of employees with wildly unreasonable predictions. If personal pensions had been required to show a proper estimate of what a member was likely to receive at retirement then I would agree that, in Mr Bentley's own words, "most employees would never have spared a moment to consider personal pension plans".

To try to drag employers and occupational pension schemes into this depressing, hut predictahle, saga with mis-sold personal pensions is quite unfair. Many employers, and their associations, made strong criticisms about personal pensions at the time tbey were introduced. These criticisms were cheerfully dismissed as being nothing more than vested interest. Had the proponents of personal pensions been recognised at the time for the vested interests that they really were, the position of many disappointed personal pension policy holders would now be quite different.

J P Batting,
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FINANCIAL TIMES

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Monday November 7 1994

Era's end in Beijing

How Messers Boris Yeltsin and Victor Chernomyrdin must envy the Chinese their annual rate of inflation of 27 per cent. Nevertheless, this rise in Chinese prices is important, not just for its direct effects, but also for what it reveals about the fissures within Chinese politics. With people positioning themselves for life after Deng Xiaoping, these are unlikely to be closed. This is the disturbing message from this year's FT survey of China, puhtished today.

Mr Deng's stroke of genius was to approach the collapsing state-socialist economy just as invaders used to treat China's Great Wall. He went round it. The results may not be quite as stellar as official figures suggest, but the country has made more economic progress in a decade and a half than in centuries. The government, albeit corrupt and dictatorial, has provided reasonable political stability, while encouraging economic initiative. The consequences have been astounding.

Big problems remain, however, partly because reform has been so carefully circumscribed. As competition has become stronger, swathes of the old economy are failing to compete. More than 40 per cent of the older state enterprises, which still generate close to half of industrial output, are making losses this year. Yet 1994 is far from a year of recession, notwithstanding bitherto unsuccessful efforts to curb inflation. On the contrary, the economy is expected to grow by 11 per cent.

Relations between Beijing and local government is the other big challenge to reformers. As tbe economy has expanded, particularly along the coast, Beijing has found it increasingly difficult either to obtain the revenue it needs or to control spending, particularly on investment. Its solution has been the printing press. Direct and indirect borrowing from the central bank bas been equal to about a third of total budgetary revenues in recent years.

In consequence, the ratio of broad money to national income has climbed to over 100 per cent. This monetary time-bomb threatens grave economic and political damage. China cannot afford a flight from money. What is needed is a push for effective reform of the fiscal system, social welfare (still largely provided by state enterprises), finance and the central bank itself. Reformers know very well wbat is needed. But recently progress has become decidedly slow.

So great is the release of energy in China that continued rapid economic progress remains the most likely outcome. In the absence of Deng's authority, however, bitter struggles for power are likely to emerge within Beijing, between it and the provinces, and between competitive and less competitive parts of the economy.

Outsiders are largely spectators. But they can encourage China to play a responsible part in international arrangements. The country should, for example, be helped into the new World Trade Organisation, in return for a commitment to further liberalisation. In the longer term, only the emergence of a prosperous middle-class in an open economy is likely to produce a China with which the world can be comfortable.

War and peace

During the past 10 days, the world has glimpsed the possibility that the Bosnian army will retake by force some of the territory which it has failed to gain by diplomacy.

If the Bosnian government gains are sustained – and this is still in the balance – that may possibly be one of the least bad developments in that terrible situation.

Western leaders will no doubt deplore further death and destruction and rightly condemn the Bosnian army if it violates UN safa havens. But having recognised the Sarajevo anthorities as the legitimate rulers of an independent state, the world cannot, with any consistency, condemn the Bosnian army for winning back some of the land taken from it.

The west may also hope that tha latest battles will create a better chance of a viable settlement than has existed since the Serbs seized control of about 70 per cent of Bosnia.

Until recently, the Serbs had little incentive to negotiate a peace on terms which others might consider reasonable; the Bosnian army's successes make this somewhat more likely.

If peace negotiations should indeed result, the cautious strategy of the five-nation contact group for hringing the parties together will prove to have been partially vindicated.

If the west had intervaned directly, either with its own air power or conspicuous deliveries of big guns, Mr Slobodan Milosevic, the Serbian president, would have come under stronger pressure to rescue the Bosnian Serbs.

Although Mr Milosevic is widely blamed for starting the war, his decision to isolate the Bosnian Serbs has contributed to the recent successes of their enemies.

Even if a more even balance of forces can eventually bring the conflict to an end, there is no ground for complacency. Worse horrors may be in store.

The United Nations forces in the region are trying to mitigate the effects of the fighting on civilians by distributing aid and maintaining safe havens.

The new fighting redoubles the moral imperative to demilitarise and protect the six UN-designated safe areas, a task which should not be confused with any ambition to influence the course of the war.

These efforts by the UN have been undermined by all the parties, including tha Bosnian government. The UN deserves aupport in facing down, by all means at its disposal, any challenges to agreed peacekeeping arrangements

The outside world's moral influence over Bosnia's leaders is weak, given that it failed to stop the atrocities by the Serbs.

However, if the Sarajevo authorities wish to retain the sympathy they have gained among western nations, they must address two questions: will they help their own civilians by co-operating more with the UN? And will they show mercy to Serb civilians in their army's path?

A job for the CBI

The chancellor's "Wise Man" and the Confederation of British Industry have recently drawn attention to the plight of the unemployed. At a time when many are pointing to other – more promising – features of the UK's economic performance, they are right to remind the chancellor that a colossal labour market failure remains.

The Treasury panel of independent economic forecasters is well-known for its inability to reach a consensus about what Mr Kenneth Clarke should do next. And yet – as a special section of its latest report points out – only one of the Wise Men, Professor Patrick Minford, expects unemployment to fall much below 2m during the next three years if the government does not make greater efforts to reduce it.

Politically, nothing would do more to tarnish three further years of recovery than a failure to get the unemployed back to work. But any policy to reduce unemployment confronts a danger. Wage growth – one of the traditional causes of inflation in the UK – has been unusually subdued in the recovery to date. But this will not last long if many people stay out of work so long that employers think they are no longer suitable for the jobs available. Firms will then fill vacancies by offering higher wages, rather than giving the jobs to the unemployed.

Re-connecting the long-term unemployed to the labour force is thus in employers' own interests, and it was encouraging to see the CBI take up the issue in a report published last week. Its study goes beyond the standard prescriptions of more training and education, to suggest reforms which could have a more immediate impact.

Predictably, the authors are better at identifying the government's failings than in proposing ways of improving the contribution of employers. It suggests reforms to the tax and benefit system to improve incentives to offer, and accept, low-paid employment. Similarly, the CBI believes the employment service could do more to bring companies and the unemployed together.

There is much the government could do in these areas. But the report implicitly recognises that sustainable economic growth, which will produce jobs, will require changes in attitude as well as changes in policy.

The UK economy seems unable to employ a large proportion of its workforce without stimulating inflation. This will change only if more employers decide to fill vacancies with relatively low-paid workers, who must he trained, rather than tempting their competitors' employees with higher wage offers. On past experience, state subsidies can take companies only so far down this route. Persuading the government to act in the long-term interest of UK business is one thing. The CBI would do even more for the unemployed, and the economy at large, if it convinced its members to do the same.

John Gapper and Andrew Fisher on Hilmar Kopper's plans to rebuild Deutsche Bank's reputation

Hopeful signs of a reversal of fortune

The old Banco de Madrid signs bave been taken down from 300 branches across Spain, and tbose of Banca d'America e d'Italia are disappearing in Italy. In their place sits the familiar line-and-box symbol of their owner, Deutsche Bank. After a year of travails and controvarsy in Germany, Mr Hilmar Kopper, Deutsche's chairman, does not disguise his delight that his bank's name retains its prestige elsewhere in Europe.

Sitting in his wood-panelled office in Frankfurt, Mr Kopper recounts how the two banks asked to be re-branded. Their customers liked the idea of banking with Deutscha despite finding the name difficult to pronounce. "Clients seem to like it, and they will practise very hard to be able to tell their relatives what their bank is called," he says, his shoulders shaking with amusement.

Mr Kopper has had few chances to laugh this year. Many Germans enjoyed the sight of their biggest bank being toppled from its pedestal by the Schneider and Metallgesellschaft affairs. This not only revived traditional German antipathy to the *Macht der Banken* (power of the banks), but raised douhts about Deutsche's reputation for strong management. Its shares slid against the market as it lost its premium rating. On the eve of Deutsche's 125th anniversary next year, he and his fellow managing board members found themselves in the unfamiliar position of struggling to restore tha bank's reputation.

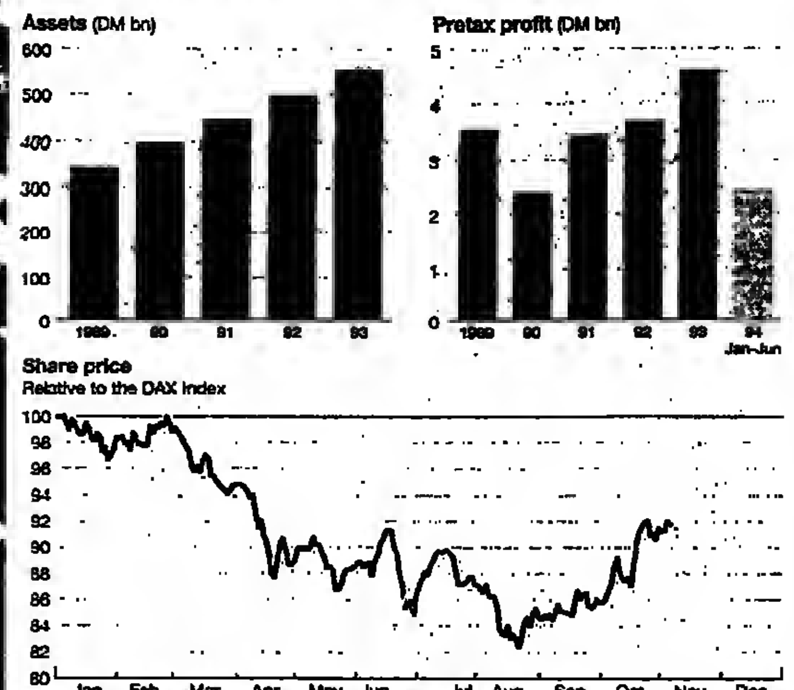
They have not found it easy. Mr Kopper's remark that the DM50m (£21m) trade debts left by Mr Jürgen Schneider when his property group collapsed earlier this year with total debts of DM5bn were "peanuts", reinforced Deutsche's image of arrogance. And the incidents have rekindled debate over whether banks' equity stakes in large companies – such as Deutscbe's 24.4 per cent stake in Daimler-Benz – lead to conflicts of interest.

Deutscbe was dragged into tbe Metallgesellschaft affair because it not only lent money to the mining, metals and industrial group, but beld a 10.6 per cent stake. Mr Ronaldo Schmitz, a Deutsche managing board member, chaired Metallgesellschaft's supervisory board as a result.

All this has happened as Deutsche wrestles with restructuring its 1,506-branch domestic bank, trying to devolve more power to local managers (see below). "It has obviously been a tough year for them," says Mr John Leonard, European banking analyst at Salomon Brothers, the investment bank. "They bave been in the news more than they would have liked, in circumstances they would not have chosen."

Yet in tha last months of the year, Deutsche shows signs not only of regaining stability, but striking back. The bank announced 10 days ago that it will base investment banking operations in London, and integrate more closely with Morgan Grenfell, the merchant bank it acquired five years ago. This is a sign of new aggression in the competition for investment hanking business with other large European banks.

Deutsche Bank: getting bigger and broader



Mr Kopper, who took over as chairman of the managing hoard five years ago when Alfred Herrhausen was assassinated, accepts that it may never regain all its mystique, but insists that respect remains. "That has not been shaken at all. There is the same amount of trust, confidence and stability. What has changed is that it has become more popular to talk about banks. There is mucb less of a taboo," he says.

He dismisses the idea that Metallgesellschaft or Schneider will have a lasting impact, describing the former's losses in futures trading as "a wonderful story for textbooks of what a management board can do wrong". The latter, he insists, was a one-off.

Yet Mr Kopper admits that Deutsche has been afflicted by the same reputation for being uniquely powerful that it used to enjoy. "I sometimes wonder wby we are looked at that way. We try to explain what we can – and cannot – do," he says, "Of course, there is some mystique, which one enjoys as long as it is positive. It is less enjoyable when negative connotations are attached, which seems to be the case now."

Ridicule matters less than the possibility that hostility to banks will encourage legislation forcing them to reduce stakes in companies to 5 or 10 per cent of tbose companies' equity. Although Deutsche has a policy of reducing stakes – and withdrawing from supervisory boards – forced disposals would cost it dearly in tax as it realised large capital gains from stakes beld at the original value.

The bank may never regain all its mystique, but Kopper insists that respect remains

Mr Kopper says that sucb legislation would be against the German constitution, and would be challenged by Deutsche in court. Further, he insists that banks are good shareholders. "A bank is a shareholder that reacts in a responsible way in line with tba interests of the company it has invested in, not its own," he says.

Deutsche wants to maintain its portfolio because the yield from dividends helps to smootb cyclical earnings from lending and volatile trading income. The latter was more than halved in the first half of this year because of bond market turmoil. Mr Kopper says he wants to reduce volatility in earnings, and also to diversify its sources of income geographically, one of the motives behind tbe investment banking move.

By comparison with most other European banks, Deutscbe bas expanded boldly in European retail banking, with acquisitions in Italy and Spain, where margins are high. But it has been more cautious than Swiss and US banks in investment banking. It has not expanded fast in equity underwriting and broking, or financial derivatives, both unfamiliar for a bank from a country that lacks sophisticated capital markets.

It has also been slower than competitors to absorb London firms, reaching a 40-page agreement with Morgan Grenfell in 1989 that prevented integration. Mr Kopper says its ambitions have now grown. "This is really the starting point. We are making a major effort in these markets, a very daring move," be says. He talks of "a lot of investment from every angle", to expand international investment banking.

Yet Deutsche remains cautious in two ways. First, while an investment banking board will now be in charge of both Morgan Grenfell and Deutsche's activities, further integration will occur only "in tbe most careful way". Mr Kopper argues that the bank has already gained from "bundling the Morgan abilities witb the Deutscbe abilities" but "tbere is even more there than we have been able to realise".

Second, he emphasises that the bank wants to build investment banking organically rather than through acquisition. Although it aims to build equity broking strength in London, he says that "we are quite able to build this up ourselves from the grassroots to save the time- and money-consuming process of integration". This also goes for derivatives, a field in whicb others have expanded by buying Chicago firms.

Mr Kopper admits tbat Deutsche "may look weak" in terms of tbe notional value of derivatives it trades compared with US and Swiss banks. However, it believes "a prudent approach is right" in a field that has been controversial because of losses by companies sucb as Procter & Gamble.

This raises the broader question of whether the cautious and consensual approach to management typified by the Deutsche managing board – 12 directors who meet each Tuesday and have collective responsibility – suits the fast-moving world of investment banking. "You have got 12 bosses, none of whom strikes me as a weak individual, and that means they can be a little slow," says Mr Leonard.

Mr Kopper points out that the managing board approach has been varied by having a single chief executive for investment banking. But he robustly defends the underlying principle.

"This is one of the most successful banks in the world. I always hear that this is not the best structure, and I don't know what is. But experience suggests the Vorstand (managing board) structure is obviously desirable," he says.

It will therefore be a chastened, but unbowed Deutsche that faces next year's anniversary. The bank's confidence last year was sucb that it commissioned an official history to be puhlished in 1995. It will include chapters on the late 1930s and 1940s when it helped the Nazi government to seize Jewish property and assets. Further disclosures could spoil the celebrations, but Mr Kopper is unabashed.

"Maybe there is something new that we did not know about. I bope so, I hope it will make interesting reading. I say we must be able to face up to whatever it is," be says.

It is an appropriate sentiment for a year in which Germany's most powerful bank has seemed curiously vulnerable. But it may take more than the admiration of Italian and Spanish customers to restore fully Deutsche's old sense of superiority.

Closer to the customers

Deutsche Bank's huge branch network in Germany is undergoing one of the most fundamental transformations since the bank was broken into regions after the second world war. The slowly-growing competition for customers among German banks has forced it to re-think how services are delivered.

Deutsche recognised the need to give customers at its 1,500 branches a more personal and effective service – and thus have a better chance of keeping them – in 1990. It started pushing authority down to local branch managers, and away from its head and regional offices four years ago.

Not satisfied with the results, it is now trying to inject urgency into the process and involve staff more closely, with tbe introduction of Projekt Kundennähe (getting close to the customers). It involves visits to branches by board members, and training for staff.

Mr Michael Endres, a member of the managing board, says it will boost the confidence of the 55,000 domestic employees. "This has to reinvigorate our activities in Germany. There is also the qnestion of motivation. The blows we bave received this year have had some repercussions on our people."

Dentsche is keen to enhance links with the customer and strengtben a service mentality for which Germany is not exactly famed.

The bank also plans to develop advisory skills. It wants staff to give financial advice to customers, and persuade them to buy a wider range of products. "You have to find a way of opening np the bank more fully for the client," says Mr Hilmar Kopper, the chairman.

This is in line with efforts hy banks in other European conntries to sell more prodncts such as residential mortgage toans and tife insurance to cnstomers. German customers have traditionally been as conservative as banks, bnt they are beginning to sbop around for better deals.

"Three or four years ago, banks found it hard to compete with one another because customers were not price-sensitive, bnt there has been an attitudinal change," says Mr Chris Williams, analyst at the broker Fox-Pitt Kelton. Banks now offer more products sncb as money market investment funds.

They are also starting to charge companies for products and services that used to be included in lending margins before they were eroded. "Banks are beginning to re-tbink, and they will attach price tags to individual services," says Mr Hans-Peter Ferslev, head of Deutscbe's strategy unit.

Dentsche has tried to remove administrative responsibilities from middle managers, to give them more time to focus on lending and giving advice. Paper processing is being taken out of branches and done in regional centres, while personnel issnes are heing handled from bead office.

The aim is not simply to increase income, but to reduce the number of poor lending decisions. Mr Endres says the sharp rise in bad debt provisions on lending to small- and medium-sized companies last year was partly because managers had not devoted enough time to their customers.

"We saw in recent years, especially in nur business with smaller and medium-sized companies, that we didn't take enough care of our clients," says Mr Endres. He estimates that productivity (measured in profit per employee) has risen by abont 30 per cent since reforms started in 1990.

To reinforce the idea of personal responsibility, Dentsche has introdnced performance-related pay at the level of branch director, and wants to extend it throughout the bank. "Everybody can be drawn at bis nose if something goes wrong. He cannot say that it is someone else's fault," says Mr Endres.

Deutsche has become a harsber place to work in other ways. Staff numbers fell hy 2,800 in the domestic bank last year, with many middle managers taking early retirement. The impact of the changes in west Germany was partly cushioned by Deutsche's expansion into brancb banking in the east.

Mr Endres says that a change in attitudes is the most vital aspect of reforms. "It is not just a matter of drawing lines and boxes on a chart, it is important that everyone knows that his role has changed," he says.

As competition grows in German banking, this will become increasingly apparent.

OBSERVER

Sweetness and light

■ Some sweet news for Paddy Ashdown, the UK's Liberal Democrat party leader.

Sugar producer Tate & Lyle, a consistent financial supporter of the Tory party, has decided this year it will give a donation to Ashdown's lot, as well as spooning out its usual £25,000 to the Tories.

The company is not commenting on the move but it is thought to be the idea of Neil Shaw, Tate & Lyle's iconoclastic chairman, in recent months a less than vigorous advocate of Prime Minister John Major's leadership qualities.

It is particularly unusual for Ashdown's party to get cash from companies outside a general election year. Not that the Lib Dems will be able to go on a spree; Tate & Lyls is donating less than £5,000.

Enough to sugar a few pills, nonetheless.

Bottoms up

■ Having done its best to absorb the financial and image-tarnishing consequences of the Schneider property collapse, Deutscbe Bank is meeting as many of the claims of contractors on the property magnate's uncompleted buildings as it feels are justified.

One demand will probably prove too much, however, even for a bank doing all it can to repair the damage caused by Jürgen Schneider's wayward business decisions and subsequent disappearance.

For the company wbich supplied champagne to Schneider – in rather large quantities – has now presented its bill. Observer suspects it bas about as much chance of collecting its money from Deutsche as of squeezing a popped cork back into a bottle of bubbly.

Ploughshares

■ While hapless broadcasters at the BBC's central and east European language services (mostly anti-communist emigrés) in London's Bush House are wondering bow much longer they might have jobs – the end of the cold war substantially eroding their *raison d'être* – tbe corporation is gladly reaping peace dividends where it can.

Bonuses are springing up in the oddest places. Audio tapes of a World Service Radio history of tbe cold war – The World That Came in from the Cold – and 50,000 copies of an accompanying book have now been adopted as teaching materials in 2,400 Slovak secondary schools.

Now that the Tory government seems to be running out of steam with tbe mammoth privatisations of yesteryear, surely this creative approach from the BBC might fruitfully be explored in other fields of government activity?

A further sword-into-ploughshare idea might be to send out to former communist states the 500 GCHQ intelligence-gatherers the UK government now plans to sack; they could surely find work as itinerant professors, from Tirana to Bialystock?

Hmm. Probably unsound, ou reflection – they might start spreading ugly nolions about industrial action.

'I'm doing five years for steroid abuse and I don't like yoor face'

Headline views

■ Literate readers of yesterday's Sunday Telegraph must have been a little puzzled at a headline reading "Mellors to divorce over new Lady in his life".

Those expecting a spicy piece about D H Lawrence's novel *Lady Chatterley's Lover* – featuring the athletic gamekeeper Oliver Mellors – were in for a disappointment. The story turned out to be about David Mellor, an obscure Tory ex-cabinet minister and his new lover. Not a pheasant in sight.

Peripatetic

■ Not high on everyone's list of emerging market possibilities, Uzbekistan is among the former Russian republics or satellites being closely studied by the First Russian Frontiers Trust, just set up by Pictet Asset Management.

It helps if you bave an experienced pioneer, and Pictet's Douglas Polunin – whose family originates from Russia – seems just the cbap. His grandfather, a renowned artist and stage designer, left St Petersburg in 1902 to settle in Russian emigré circles in Paris. His father, Nicholas Polunin, an eminent explorer, botanist and environmentalist, discovered Prince Charles Island in the Arctic in tbe mid-1940s. Polunin himself was raised in Nigeria; be has also lived in Baghdad and has a sister who runs a Buddhist centre in South Korea.

If Tashkent gets him down, Polunin could always try writing a travel guide to doing business in the world's difficult spots. Like London.

Cha-cha-cha

■ Dirty deeds in the office of Ramon Escovar Salom, Venezuela's minister of the interior. He recently discovered bugging devices, planted there by hands unknown. Suspicion lies against anonymous disgruntled former security officers.

Not too surprising; in his role as prosecutor general, Escovar last year laid corruption charges against president Carlos Andrés Pérez, ultimately dislodging him from office.

Around that time Escovar started playing loud classical music in his office, raising the volume when engaged in sensitive conversations. He says the music "belps to maintain my spiritual peace".

Plenty of Wagner – that should scare tbem off.

Do the ballot rap

■ Husamettin Cindoruk, chairman of tbe Turkisb parliament and clearly a stern guardian of morals, has ruled that women cannot come to work in mini skirts, reminding everyone that the attire of parliamentary employees is regulated by a 1982 civil service law. "Parliament is not a disco," be said. He should pay a visit to the mother of all parliaments – he might have to eat his words.

FINANCIAL TIMES
Monday November 7 1994

Company predicts 25,000 new jobs in region

Nissan investment in UK plant tops £1bn

By John Griffiths in London

Nissan's car plant at Sunderland, in north-east England, has become the first Japanese manufacturing venture in Europe to invest more than £1bn ($1.61bn).

The plant is entering a new phase likely to create a further 25,000 direct and indirect jobs – mostly in the hard hit north-east – over the next 10-15 years, according to Mr Ian Gibson, chief executive of Nissan Motor Manufacturing (UK).

Nissan's UK manufacturing operations, which today mark their 10th anniversary since the foundation stone was laid on the 800-acre Sunderland site, have taken spending past £1bn by *starting construction of a £33m* axle-manufacturing plant and a further upgrading of vehicle painting and other facilities.

The axle factory is due to start production in 1996, when a replacement for the current Primera range of medium-sized cars is introduced.

When operational it will mean that Nissan UK *will* have virtually a fully integrated production facility, including foundry and pressings facilities. The only significant components still expected to be imported from Japan will be engine blocks and gearboxes, about 8 per cent of each car's value.

Mr Gibson made his jobs prediction 24 hours after the frigate HMS Richmond slipped down the nearby River Tyne. After 18 months in receivership, Swan Hunter itself now appears unlikely to escape closure, and the shipbuilding that was the region's economic mainstay for many years will end.

The additional 25,000 Nissan-related jobs will not come, in the main, from the Sunderland plant, although it is expected to increase capacity from 300,000 cars a year to 400,000 by the end *of the decade. Instead* they will come from additional industrial and commercial activities for which Nissan UK is already acting as the catalyst, Mr Gibson said.

"If you go to Stuttgart, for example, you see a great heap of companies that no longer look like automotive businesses but which needed the presence of Mercedes and Porsche to get them going: metal fabricators, toolmaking, design services, all providing an industrial infrastructure for a range of activities which would not otherwise have existed.

"We're only now starting that infrastructure stage in the north-east. It will be another 10 years in growing, but there is an enormous growth in economic activity to come."

Nissan companies on the site *employ almost 5,000 people*, with nearly another 10,000 jobs estimated to have been created among Nissan's 200 component suppliers, 130 of which are UK-based.

At the weekend Nissan defended its UK components suppliers from heavy criticism in a report published by Cardiff Business School, Cambridge University and Andersen Consulting, which compares worldwide competitiveness.

Cardiff Business School's Professor Dan Jones said most UK component-makers' performance was so poor that Japanese car companies with UK plants might *have* to bring *supplies* in from Japan to replace them.

Mr Gibson said Nissan had no intention of doing that.

Rightwing UK Tories threaten to block EU bill

By Kevin Brown, Political Correspondent, in London

Rightwing members of the UK's ruling Conservative party are threatening to block crucial legislation to increase Britain's contributions to the European Union, in retaliation for the government's delay in privatising the Post Office.

Amid growing rightwing anger at the decision by Mr John Major, the prime minister, to give way to a handful of mainly leftwing Post Office rebels, cabinet loyalists sought to defuse the row by pledging that privatisation was still on the government's agenda.

In a robust defence of the prime minister, Mr Jeremy Hanley, the party chairman, told BBC *radio that Mr Major retained the* support of "the vast majority" of MPs. He said ministers "do not believe this policy is wrong, but maybe we do need to sell it better". Sir Norman Fowler, his predecessor as party chairman, told BBC television: "Anybody who thinks this is the end of the matter should think again.

However, rightwingers queued up to blame the retreat on weak leadership by Mr Major. Mr Norman Lamont, the former chancellor of the exchequer, said it was "absurd that the government should be held to ransom by a taxi-full of flotsam and bobtail".

Mr Lamont said the rebels would *have backed* down if the prime minister had made the bill an issue of confidence, as he had done when faced with a rightwing rebellion against the bill implementing the Maastricht treaty on European integration.

Mr Lamont said he would vote for the bill increasing contributions to the EU, which implements an agreement setting a higher ceiling for payments along lines he negotiated as chancellor.

But, in a warning to the government's business managers, Mr Lamont said the Post Office debacle would increase opposition to the bill by rightwing critics of the EU, who would demand "a very thorough examination of it".

The bill, which will be included in the Queen's speech to parliament on November 16, is vulnerable because the number of committed Euro-sceptics far exceeds the government's House of Commons majority of 13.

It is broadly supported by the main opposition parties, but Labour is working on parliamentary manoeuvres intended to embarrass the government into relying on a vote of confidence to force the bill through.

Rightwingers praised Mr Michael Heseltine, the trade and industry secretary, for seeking to press ahead with Post office privatisation.

Cold shoulder for EU from Norway's north, Page 2
Chancellor plans cuts, Page 7

THE LEX COLUMN

Questionable AIM

Pity the Stock Exchange. When it announced the closure of the Unlisted Securities Market, politicians and representatives of small companies pressed for a change of heart. So against its initial judgment, the exchange decided that a new Alternative Investment Market should rise to take the USM's place. It plans to create a lightly regulated market which does not impose excessive costs on small companies.

Unfortunately, support is draining away. The fund management group M&G says it will not invest its unit trust money in the market because insufficient regulation will make it too risky for its investors. The City Group for Smaller Companies, the most vocal lobbyist for a new junior market, has become more enthusiastic about a rival scheme to create a European-wide market for entrepreneurial companies, modelled on America's Nasdaq exchange.

The stock exchange is in a bind. If the regulatory burden is kept low, shareholders may be shy of investing. But if regulatory standards are raised, small companies may decide it is not worth the effort and cost. There may *be some way of achieving a compromise*. But one cannot help thinking that the exchange should have stuck to its initial view that there was no commercial case for setting up a "son-of-USM" and resisted the political pressures to do so. The field would then have been clear for private groups to set up their own junior markets – if, that is, they had bright enough ideas and could show that the business case added up.

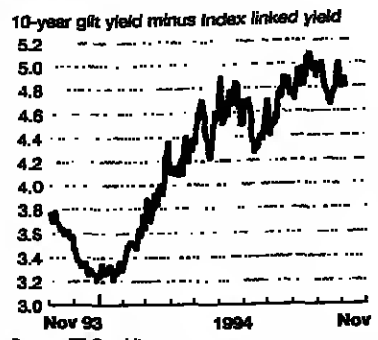
Gilts

Last week's report from the Bank of England widened the gulf between the bank's and the market's expectations of inflation. While the bank cut its *medium-term forecast* to 2.5 per cent, the market's view – as expressed by the difference between yields on conventional and index-linked gilts – remained nearly twice that. If the bank is right, the relationship between conventional and index-linked gilts must change. The question is which side will move.

Index-linked gilts look cheap compared with equities. In August UK equity yields fell below those on index-linked gilts for the first time since before the 1987 crash. Equities have since slipped back but their yield premium is still under 10 basis points. Although lower than normal, such a

Expected inflation

10-year gilt yield minus index linked yield



Source: FT Graphite

narrow spread could persist if the market is willing to accept a lower risk premium for equities than it used to demand or if dividend growth prospects are particularly strong at this stage in the economic cycle.

The yield on index-linked gilts, at around 4 per cent, is consistent with the outlook for real interest rates. So if the gap between the market's and bank's views on inflation is to close, yields on conventional gilts are likely to *fall further*. Over the last six weeks gilts have outpaced other government bonds. It would not be surprising if there was now a pause. But with UK institutions signalling a clear intention to increase their weighting in recent surveys, there is good reason to expect continued relative outperformance.

German governance

A consensus is emerging within Germany that aspects of the country's corporate governance need improvement. This is to be welcomed by the foreign shareholders who own a large proportion of the freely traded shares in German quoted companies. Cosy *boardroom* ties between management, banks and labour have engendered a slack approach to delivering value to shareholders. The dismantling of some of these ties, combined with greater disclosure, will encourage management accountability to the broad mass of shareholders. Their legitimate desire for profits and dividends to be maximised should thus be better served.

Despite the talk, there have so far been regrettably few tangible changes to German governance. Deutsche Bank and Daimler-Benz have set up audit committees – a step designed to correct some of the control weaknesses revealed in the two-tier board system. But their example has not been widely followed. No other German company has followed Daimler's brave lead in reporting its figures according to US accounting rules. None of the large German conglomerates has taken steps to unbundle itself aggressively with the aim of unlocking shareholder value.

The impending privatisation of Deutsche Telekom could do the cause of governance a good service. So great is the company's need for capital that it will be obliged to woo international investors more seriously than any other German institution to date. Telekom should follow *Daimler's lead* and seek a full listing on the New York Stock Exchange.

European chemicals

European chemicals groups reported strong third-quarter profits last week. The scale and speed of recovery has been impressive. Increased volumes and sharply improved prices – in the case of high density polyethylene up 65 per cent year on year –, helped drive earnings sharply upwards. The recession's cost-cutting also bore fruit, substantially boosting profits. With the biggest commodity chemicals' price increases implemented towards the end of the third quarter, the final quarter *promises to* be even better.

Those companies benefiting most are involved in upstream activities – supplying plastics, titanium dioxide and other raw materials. Profits at BP Chemicals rose 60 per cent during the first nine months, while DSM turned an after-tax loss during last year's third quarter to a profit this time. Those closer to the customer are doing less well, squeezed between higher raw material costs and consumers' unwillingness to accept higher prices. ICI's paints division and Akzo Nobel were most *obviously* in discomfort.

The shares of ICI, DSM and Akzo all fell on profit-taking after their results. The only exception was Rhône-Poulenc which surprised the market with better than expected figures. *The* question remains whether the chemical industry's recovery has been fully discounted. If the recovery is as brief as in the last cycle, the shares may be fully valued. But the market may have miscalculated and this cycle could be considerably longer than previous ones. That will depend partly on demand, particularly in Asia. The other factor is supply, which is entirely in the industry's own hands.

UN warning of threat to civilians

Continued from Page 1

Mladic, the Bosnian Serb commander, pledged to "to retake all territory lost to the Moslems and even more as a punishment".

The Serb-dominated Yugoslav government in Belgrade, in one of its first pronouncements on the renewed fighting, issued a statement at the weekend condemning the "deliberate and massive violation of the cease-fire agreement on the part of Moslem and . . . Croat forces".

However, the statement contained no suggestion that Belgrade's embargo against the Bosnian Serbs, its former allies, would be lifted. This embargo, which has left the Bosnian Serbs badly short of fuel, is viewed as one of the key factors behind the Bosnian government's recent successes.

Earthquake in Walla Walla

Continued from Page 1

aghast. "Don't they know be'sthe third most powerful man in the country?" asked an executive with *Johnson Matthey Electronics*, near Spokane, second largest city in Washington state.

And Mr Tony Sandoval, president of the Washington state council of *La Raza*, the Hispanic community organisation, shook his head in wonder. "It's very important to have the Speaker of the House. You'd have to be brain-dead to pick somebody else," he said.

But some people in Walla Walla despise the power of the *Speaker's office* and the *very tangible* benefits it can bring to the district. "It 'helps' to get more pork in the state, and I don't believe in the pork barrel," said Ms Edith Largent.

Although this is his 16th election, Congressman Foley's campaigning skills have rarely been put to such a test. At a meeting with voters this weekend in the Red Apple restaurant, on Spokane's *Main* Street, he appeared deeply uncomfortable when appealing for votes. He relaxed only when offered the chance for a detailed lecture on policy.

Nervously twisting a chair in his hands and often placing it like a fireguard between his own 6 foot 3 inch frame and his voters, he studiously avoided the classic political kissing opportunity presented by the toddler at his feet. He appeared diffident about claiming credit for the benefits his clout has brought the district and reluctant to attack his opponent directly.

But the campaign, like many across the US this year, has been unpleasant, with each candidate ferociously attacking the other in television and radio advertisements. The viciousness of the campaign has turned away voters such as *Mr McClure*, the farm machinery store owner.

"I think they're both really fine gentlemen, but they are both trying to degrade each other to the point where we don't want to watch it any more," he says.

Airbus moves to bolster ties with China

Continued from Page 1

furthur "sweeten" deals negotiated with China on the sale of new aircraft. Boeing, in its efforts to preserve its leading position in the Chinese market, signed an agreement in August for the manufacture of the aft section of its 737 twin-engine aircraft in China. The deal is estimated to be worth about $600m.

Airbus, which has sold 35 wide-bodied aircraft to China since 1985, indicated it would compete more aggressively with US manufacturers to increase its share of what is expected to be a vast market for new aircraft in China over the next 15 years.

Mr Pierson said Airbus aimed to capture half of new sales compared with the one-third share it had secured in the past five years. Airbus expects China to purchase 620 aircraft in the next 15 years at a cost of about $30bn.

That compares with a forecast by Chase Manhattan bank that China's passenger aircraft fleet – currently standing at 350 – will increase fivefold by 2010, requiring the purchase of 1,200 new aircraft worth $90bn. Boeing predicts sales of 800 aircraft at a cost of $40bn.

FT WEATHER GUIDE

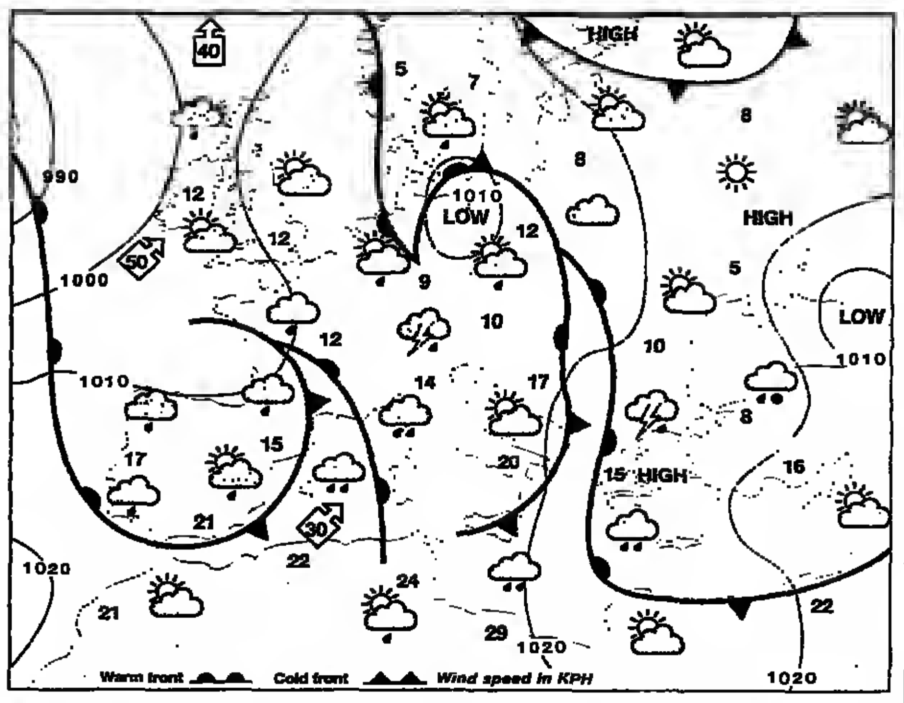
Europe today

Torrential rain and heavy thunderstorms will affect large areas of the Mediterranean, especially southern Italy and Greece. Heavy showers with thunder and snow will form over the Black Sea and the northern coast of Turkey. Western Europe will be calmer, with scattered patches of light rain and general cloudiness. Some areas will have fog throughout the day. The Alps will continue to have showers, which will be heavy in places.

The open seas, south of Ireland, could have near gale-force winds. A strong front in northern Europe will form the boundary between wintry conditions in the north and much milder conditions in the south. There will be rain or wet snow in central Scandinavia.

Five-day forecast

Wintry conditions in the extreme north will move south during the next two days and reach southern Scandinavia towards the end of the week. The Mediterranean, western and central Europe will again be very wet, with a risk of flooding in France *and Italy*.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	34
Accra	cloudy	31
Algiers	fair	22
Amsterdam	cloudy	11
Athens	cloudy	16
Atlanta	cloudy	22
B. Aires	sun	27
B.ham	fair	10
Bangkok	fair	33
Barcelona	shower	18
Beijing	cloudy	15
Belfast	cloudy	11
Belgrade	fair	12
Berlin	fair	11
Bermuda	cloudy	26
Bogota	drzzl	18
Bombay	fair	34
Brussels	cloudy	10
Budapest	cloudy	10
C.hagen	shower	8
Cairo	fair	24
Cape Town	fair	25
Caracas	cloudy	32
Cardiff	cloudy	11
Casablanca	cloudy	21
Chicago	fair	14
Cologne	rain	10
Dakar	fair	29
Dallas	sun	22
Delhi	sun	31
Dubai	sun	34
Dublin	cloudy	12
Dubrovnik	shower	13
Edinburgh	fair	10
Faro	cloudy	20
Frankfurt	rain	10
Geneva	rain	8
Gibraltar	shower	20
Glasgow	fair	10
Hamburg	shower	8
Helsinki	cloudy	1
Hong Kong	sun	27
Honolulu	fair	29
Istanbul	shower	12
Jakarta	cloudy	31
Jersey	cloudy	11
Karachi	sun	35
Kuwait	fair	30
L. Angeles	shower	18
Las Palmas	fair	24
Lima	fair	22
Lisbon	rain	17
London	fair	12
Lux.bourg	fair	8
Lyon	rain	12
Madeira	cloudy	22
Madrid	shower	13
Majorca	shower	20
Malta	rain	24
Manchester	fair	10
Manila	thund	30
Melbourne	windy	15
Mexico City	thund	23
Miami	cloudy	28
Milan	rain	14
Montreal	rain	5
Moscow	fair	0
Munich	rain	9
Nairobi	thund	25
Naples	rain	20
Nassau	thund	29
New York	fair	17
Nice	rain	16
Nicosia	sun	24
Oslo	shower	5
Paris	cloudy	12
Perth	fair	38
Prague	fair	10
Rangoon	sun	33
Reykjavik	shower	6
Rio	thund	28
Rome	rain	20
S. Frsco	shower	18
Seoul	sun	15
Singapore	thund	30
Stockholm	cloudy	7
Strasbourg	fair	8
Sydney	cloudy	25
Tangier	shower	20
Tel Aviv	shower	19
Tokyo	cloudy	18
Toronto	shower	9
Vancouver	cloudy	10
Venice	rain	15
Vienna	fair	10
Warsaw	fair	11
Washington	fair	19
Wellington	rain	15
Winnipeg	rain	10
Zurich	rain	10

中国便览

CHINA

Monday November 7 1994

NEARING THE END OF AN ERA

A portrait of China's senior leader, Deng Xiaoping at the entrance of Beijing's Museum of Revolutionary History on Tiananmen Square. Deng, who took power in the late 1970s, has been China's most radical economic reformer. He last appeared in public when he was shown on TV visiting Shanghai earlier this year. He was extremely frail. Meanwhile, various factions are manoeuvring for power – see political report, page two. *Picture by Adrian Bradshaw.*

As China proceeds further down the road of economic reform, the task is becoming more complicated, reports **Tony Walker**

Reform momentum slows down

After two years of spectacular economic progress, China is entering a winter of unease. The reform momentum is slowing, there are worries about inflation and worker unrest, and the prospect of transition to a new leadership when Deng Xiaoping dies, is weighing more heavily.

Officials insist that there will be no let-up in the reforms, but it is clear that *China has embarked on a period of con*solidation in its economic transformation following recent advances.

Concern about the deteriorating health of Deng is casting a long shadow. China is now enmeshed in the transition to a post-Deng era, re-inforcing a mood of caution among the leadership group.

In the short-term, however, worries about inflation are proving the most burdensome for the authorities, who bave made the fight against rising prices their main priority.

Chinese leaders have been predicting for much of 1994 that price increases would slow, but in spite of a stiffening of price controls earlier this year the underlying inflation rate remains stubbornly high. Consumer prices leapt by 27.4 per cent in the twelve months to September, and were up by two percentage points on August.

The government is also finding the task of reforming state enterprises more challenging and politically riskier than expected. The planned implementation this year of a programme to rationalise 100 enterprises in 18 cities, including a pilot bankruptcy scheme, has been postponed until next year, because of fears of worker unrest, especially in China's restive north-east industrial heartland.

The official jobless rate among industrial workers stands at 2.4 per cent, but this vastly understates the problem of both unemployment and under-employment, which is running as high as 20 per cent in some urban areas.

Sluggish activity in the state sector, which accounts for about 45 per cent of industrial production, has raised the spectre of "stagflation" in an economy that is decelerating. Real GDP growth is projected to slow to about 10 per cent next year, compared with 13.4 per ceot in 1993 and an expected 11.5 per cent this year. Since the introduction of a 16-point stabilisation programme in July 1993, the government has instituted a series of stop-go attempts at restraining monetary growth to calm an overheating economy, loosening and tightening credit in alternate three-month cycles.

Persistent demands for working capital from ailing state enterprises, half of *which are operating in the red, have* greatly complicated efforts to restrain monetary growth.

But while China faces enormous challenges in managing its transition, from a ceotrally-planned monolith to a market-oriented system, the economic news is far from being uniformly poor.

Foreign investors continued to target China, pledging some US $57bn worth of new investment in the first nine months of the year. *Actual investment* totalled $22.72bn, an increase of 49 per cent over last year. China now absorbs about half of all foreign direct investmeot to developing countries worldwide.

Trade figures *so far* for 1994 are no less impressive. Exports rebounded strongly after growth slowed last year. In the first three-quarters of 1994, exports exceeded imports by $1.38bn, compared with last year's trade deficit of $12.2bn.

In line with its much-improved trading performance, China's foreign exchange reserves grew strongly in the first half of the year, to stand at $39.83bn at the eod of September, a 87 per cent increase on 1993. The continued buoyant performance of township and village enterprises was another bright spot.

Yet, although economic issues have dominated the public agenda this year, it is concern about Mr Deng's health which is preoccupying the leadership, and deepening the new mood of caution. Heirs to the throne wish to avoid any false steps in this delicate transitional phase.

At the fourth plenary session of the 14th central committee held in September, the Communist Party emphasised themes of stability rather than reform in a resolution titled "Major Issues on Strengthening Party Building." This was hardly a ringing endorsement of the reform process: instead it indicated that the leadership was preparing for difficult times expected ahead.

The fourth plenum resolution stood in marked contrast to that of the third plenum of November, 1993 which approved a blueprint for sweeping economic changes, including reforms of the financial sector and guidance for the corporatisation – *a Chinese half*-way house to privatisation – of state enterprises.

Slow progress in these areas in the 12 months since the third plenum reflects a new, more hesitant mood which has been prompted by concerns about rising prices, unrest *among the unemployed*, agitation by peasants whose incomes have been squeezed by rising costs, greater incidence of crime across the country, and worries about the leadership transition.

Added to that is the fact that as China proceeds further down the road of economic reform and in the process seeks closer integration with the world economy, the task becomes more complicated. Not least of the difficulties is marrying the country's own evolving trading laws and regulations with those of the outside world.

Presiding over this extraordinarily complex transition, in place of Mr Deng's generation of revolutionaries, will be a new, more technocratic cadre whose capacity to deal with the serious challenges which lie ahead in governing the world's most populous state is largely untested.

China's new generation of leaders may be able to defer for the time being consideration of contentious issues such as the need for greater accountability, but continued economic liberalisation is certain to increase demands *for a more representative system.* Real political reform, as opposed to tinkering with party institutions, cannot be excluded indefinitely from the debate.

While progress in economic reform has been patchy, there have been some impressive advances in foreign policy. President Clinton's decision in May to uncouple human rights issues from an extension of China's most favoured nation trading status in the US repre*sented a victory for Chinese diplomacy*, though human rights lohhy groups were outraged.

Relations with the US have improved markedly in the past six months, with frequent exchanges of high level visitors and growing collaboration in a range of areas – from regional security to global arms control.

The agreement reached in October between the US and China to co-operate in efforts aimed at halting the spread of missile technology and fissionahle nuclear materials was a significant development.

Chinese officials regard 1994 as a year during which Beijing placed greater distance between itself and the massacre *of pro-democracy protesters in Tianan*men square in 1989. Sanctions are still in place in the West against the sale of military hardware, but the Tiananmen issue as an irritant to relations with the international community has receded into the background.

China's foreign policy aspirations for the year would be more than fulfilled if success were achieved in its difficult negotiations on re-entry to the General Agreement on Tariffs and Trade, *(see page five in this survey).* Gatt-entry, and the benefits which would accrua in consequence, would provide a fillip for a regime seeking positive economic news to counter some of the less positive developments of the latter part of the year.

ON OTHER PAGES

Editorial production: Michael Wiltshire

Tony Walker reports on a transitional stage in politics as rival groups vie to succeed Deng

The long wait for heaven's mandate

It was hardly a ringing declaration of self-confidence in the future, and for that reason it was revealing of the political uncertainties that prevail in China as tha nation waits for its paramount ruler to die and worries about the transition from one generation of leaders to the next.

The resolution of the fourth plenary session of the 14th Central Committee of September 28 laid heavy emphasis on strengthening Communist Party institutions and rooting out corruption. Its message was one of consolidation, in marked contrast to the decisions of the third plenum, twelve months earlier, which had resolved to embark on an ambitious programme of economic reform.

"The Party must be capable of recognising, enhancing and upgrading itself under the new situation of raform and of opening-up, and must conscientiously atudy and solve the new contradictions and new problems that crop up in the course of its self-building," said tha resolution.

China's "third generation" of leaders, as they are known in official parlance, find themselves in the uncomfortable situation of being expected to get on with asserting leadership, while at the same time remaining mindful of the fact that an old man of failing health is still the arbiter when it comes to important decisions – although it is not clear whether it is Mr Deng himself or those who are purporting to speak for him who are actually wielding authority.

Mr Deng's health may have deteriorated to the point where his ability to monitor developments is very limited, but until he dies the "mandate of heaven" cannot pass to his chosen successors. This is in spite of the fact that much has been made recently of the old man's confidence in the new generation with President Jiang Zemin at its "core."

China, as it awaits Mr Deng's demise, is embroiled in a process of "transitional politics" with various factions manoeuvring for power and influence in preparation for the post-Deng era. Thus, personnel changes at the top increasingly are seen through a prism of what they mean for the power balance after Deng.

President Jiang Zemin, who also holds concurrently the positions of general secretary of the Communist Party and chairman of the Military Commission, appears to have been bolstering his position over the past year or so with key appointments to the party and military, and to the security apparatus.

A thread running through these appointments is that the officials brought to Beijing were associated with Mr Jiang in his days in the 1980s in Shanghai when he served as mayor and then party secretary. This has given rise to talk of a "Shanghai faction" in the leadership, but such an assessment may prove to be simplistic since many leading figures with a Shanghai connection, including Mr Zhu Rongji, the vice premier in charge of the economy (Mr Zhu was, like Mr Jiang, mayor and party boss of Shanghai) are not so easily pigeon-holed.

With Mr Deng's demise drawing nearer and with the leadership in something of a state of flux it will almost certainly taka time after his departure from the scene for a clearer picture to emerge of the strength of the various key participants and, more importantly perhaps, of the trends which they represent.

The principal actors at this stage include Mr Jiang himself, Premier Li Peng, Mr Zhu and Mr Qiao Shi, the enigmatic chairman of the standing committee of the National People's Congress and third ranking figure on the seven-member standing committee of the ruling Politburo. But waiting in the wings are others who can be expected to make their bids for a share of power in the post-Deng phase.

Mindful of the fact that Mr Deng's reformist legacy will almost certainly come in for a buffeting once he goes, the authorities have, for much of this year, been seeking to reinforce the message that there can be no turning back, but at the same time they have mounted a campaign aimed at reminding people that economic reform does not equate with political liberalisation.

People's Daily, in a commentary echoing the theme of September's central committee meeting, stressed adherence to democratic centralism, a code-phrase for continued rigid party control, and rejected what it described as the doctrine of axtreme democracy – the phrase employed by Chinese propaganda to impugn Western-style democracy.

"We must perfect democratic centralism and associated policies, so that there is no change because of a change in leadership, and no change because of a change in the leaders' views or focuses of attention," People's Daily said pointedly.

Indications that Mr Deng's legacy, which is meant to serve China for the next 100 years, will be far from immune from attack came with publication earlier this year of a controversial book whose author has thus far not been identified publicly. The book, *Looking at China Through a Third Eye* expresses the heretical notion that Mr Deng's policies of explosive economic growth have led China into a trap in which socialist values were crumbling, and the ability of the authorities to exert control over a restless and disaffected peasantry was weakening.

Publication of such criticism, especially in tha present climate of unadorned official praise for Mr Deng, was surprising, but it does indicate a certain level of opposition. Party conservatives unhappy with the excesses of the economic transformation, and ideologues who fear a withering of socialism – with or without Chinese characteristics – can be expected to be more outspoken in the post-Deng period.

Criticism from party dissidents, who have been biding their time until Deng passes from the scene, may well provide an early test of the resolve of the leadership group. China's post-Dang collectiva, deprived of the ability to speak on behalf of a higher authority, will have to find new ways of dealing efficiently with internal dissent.

Apart from Mr Deng'a anointed successor, it will be the veteran officers of the People'a Liberation Army who will play a crucial role in the next phase. Although the army has undergone a fairly rapid professionalisation, and thus the introduction of younger officers to its senior ranks since the late 1970s, old-guard commanders still hold sway.

President Jiang Zemin's chairmanship of the Central Military Commission (the most powerful body in China aside from the Politburo standing committee) is under-pinned by the presence as vice-chairman on the commission of two Red Army stalwarts and Long March veterans – General Liu Huaqing, 78, and General Zhang Zhen, 80.

Their role, and that of other revolutionary commanders, will be critical in resolving factional struggles post-Deng. In preparation for the transition and to assure continuity the word has beeu pnt out that Generals Liu and Zhang will continue in their posts for the time being.

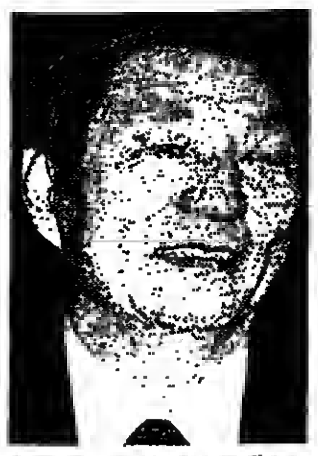
The army and security apparatus has been standing by for months to crack-down on any sign of trouble after Mr Deng goes. Security will certainly be at the top of the list of concerns in the immediate post-Deng era.

Indeed, General Zhang is reported to have stressed at a recent meeting of the Central Military Commission the need for ahsolute loyalty of tha army to the party in the next phasa. His address also laid heavy emphasis on the need to maintain stability in the army itself and in the nation at this time. These will remain standard themes in these skittish times.

President Jiang Zemin: a stronger position now — Picture: Greg Baker, AP

Premier Li Peng: one of the main players — Picture: Dennis Owen, Reuter

Qiao Shi, chairman of the standing committee of the NPC — Reuter



Key role: Zhu Rongji, executive vice premier — Trevor Humphries

Diplomacy has been a key factor this year, reports Tony Walker

Relations with US improve

When Qian Qichen, China's Foreign Minister, addressed the US Council on foreign relations in New York recently, he spoke with more self-assurance about diplomatic achievements than might have been possible earlier in the year.

Mr Qian also pursued a theme that is fast becoming a staple of public utterances by Chinese leaders on a range of subjects from Gatt membership to regional security. It is that China, because of its growing economic weight, expects to play a much expanded role in a complex and unstable world.

"People with vision have come to realise that the world needs China for peace, stability and prosperity just as China needs the world," he said.

As 1994 draws to a close, there is no doubt this has been a successful year for Chinese diplomacy with Beijing further distancing itself from the bloody events of 1989 in which the military turned its guns on student pro-democracy protesters.

The US agreement in mid-year to sever the link between renewal of China's Most Favoured Nation status and human rights issues represented a aignificant breakthrough.

Relations with the US have improved markedly as a consequence, although irritations continue over issues ranging from Washington's decision to upgrade ties with Taiwan to terms for China's re-entry to the General Agreement on Tariffs and Trade (GATT). Among tangible signs of improvement was the joint Sino-US statement in October on "Missile Proliferation" in which the two sides agreed to work together to halt proliferation of missiles. They also resolved to co-operate in efforts to achieve an end to the production of fissile materials for nuclear weapons.

In return for China's agreement to support a global ban on exports of missiles under the terms of the Missile Technology Control Regime (MTCR), the US lifted sanctions on the export of high technology items.

Since the disastrous visit to Beijing early this year of Mr Warren Christopher, the US Secretary of State, marked by an unseemly wrangle over human rights, a steady stream of senior Americans has passed through the Chinese capital; among them, Mr Ron Brown, the Commerce Secretary and Mr William Perry, the Defence Secretary.

The latter was the first visit to China of a US Defence Secretary since 1989 and yielded agreement on enhanced military conaultations, and co-operation in such fields as defence conversion. The two sides did not address the issue of the continued US embargo on military aid to China imposed after June, 1989.

The growing frequency of Sino-US exchanges indicates that the two are bent on building a more constructive relationship in both the commercial and political and security spheres. This is consistent with the Clinton administration's desire to re-focus its China policy in ways that make it less susceptible to human rights pressures.

China would also be well satisfied with broader foreign policy developments. The defusing, for the time being, of the North Korean nuclear crisis represented a success for Chinese diplomacy which had striven behind the scenes to avoid a sanctions process and, worse, the crisis spiralling ont of control.

In a way, the North Korea issue provided a textbook case of Beijing's cautious foreign policy spproach. China prefers quiet diplomacy to confrontation on most issues with the notable exception of questions involving Hong Kong, Taiwan, Tibet and human rights.

This much reflects the low-key non-ideological personal style of Foreign Minister Qian as it does Beijing's desire to be regarded as a good neighbour in its own region and a constructive player globally.

China, for the moment, appears sensitive to regional concerns about its growing economic strength, although Beijing's uncompromising pursuit of its claim to disputed islands and surrounding waters in the South China Sea risks confrontation, principally with Vietnam, *see report, this page.*

The Spratlys issue is one of the irritants most often cited as an argument for the further development of a regional security consensus, but here again Beijing is cautious. While officials see merit in dialogue they are sceptical of grandar schemes such as Europe's CSCE framework.

This caution extends to Beijing's approach to the Asia Pacific Economic Co-operation forum (APEC). While China sees merit in APEC, it is not ready, at this stage, to embrace the grouping wholeheartedly as much more than a consultative forum.

Among China's concerns is that APEC itself might develop into a trading bloc in competition with other groupings, including the European Community. China, whose trading ambitions are almost boundless, is understandably against the idea of the world being divided into competing economic spheres.

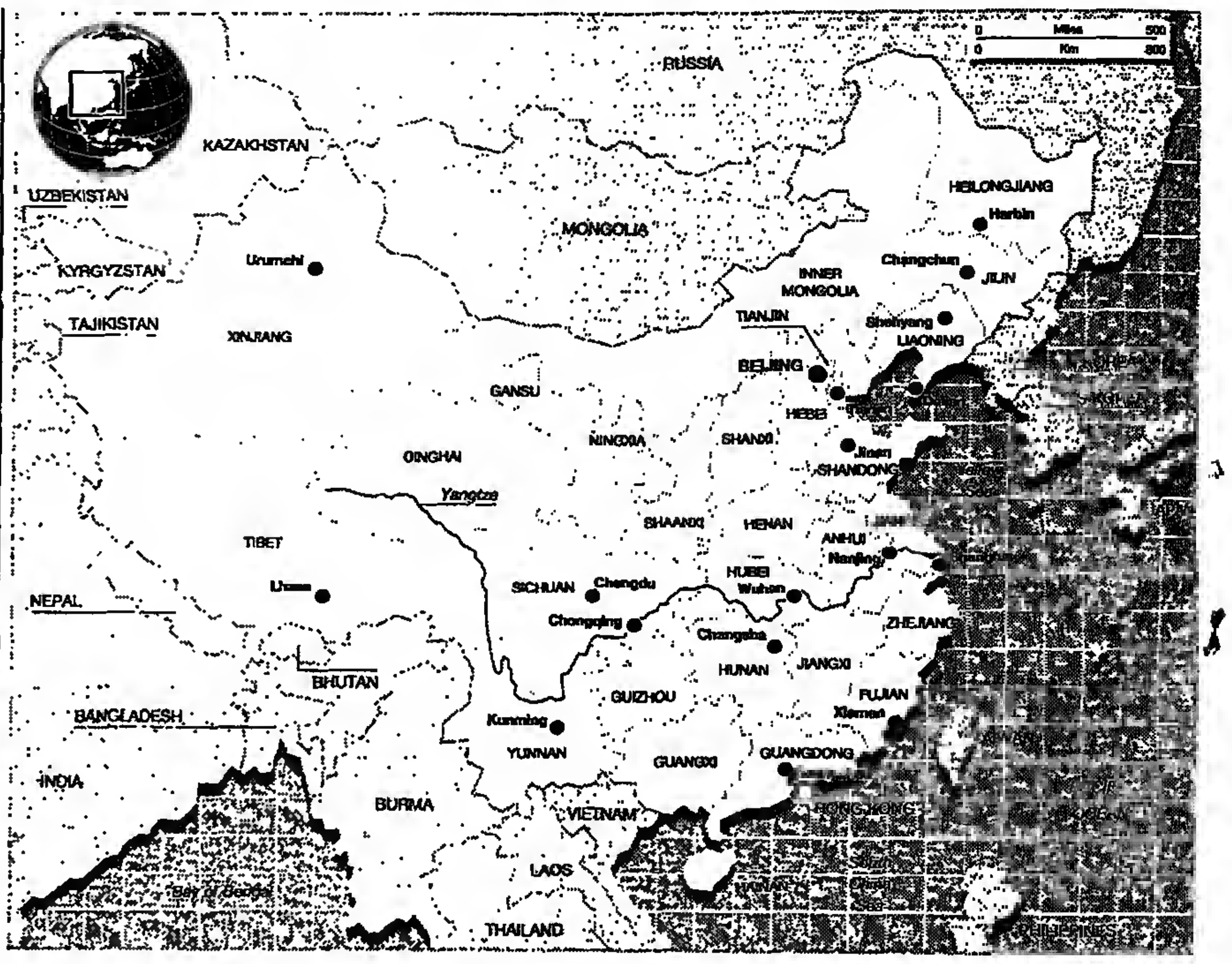
Apart from the US, China has also witnessed in the past months an improvement in its relations with key European powers, including Germany and France.

The visit to France by President Jiang Zemin in September followed a period of coolness over French arms sales to Taiwan, but the issue was defused earlier this year when France agreed to place a moratorium on new weapons business.

China's relations with the Russian Federation have also been improving, culminating with the visit to Moscow in the autumn by Mr Jiang. This resulted in a series of framework economic agreements designed to propel the relationship into the next century. The two sides also agreed to stop targeting each other with nuclear weapons and to further reduce the deployment of troops on their lengthy common boundary.

The one really jarring element of China's international relationships, apart from ongoing human rights pressures, remains the row over Hong Kong governor Chris Patten's attempts to broaden democracy, and the effect this is having on Sino-British ties.

At this stage, there seems little prospect of an end to the friction and its negative impact on relations between Beijing and London. The 1,000 or so days between now and 1997 promise a humpy ride.



Dispute over offshore oil and gas resources

Spratly Islands row heats up

It is possible that a group a submerged reefs in the South China Sea could be the site of the world's next big conflict involving the ownership of oil resources.

At issue is the ownership of the Spratly Islands and their surrounding seas which are claimed, in whole or part, by China, Vietnam, the Philippines, Malaysia, Brunei and Taiwan.

The main protsgonists in the dispute are, however, China and Vietnam. They have come to blows once – in 1988 when China sank two Vietnamese vessels with the loss of more than 70 lives – and continue to frustrate each other's attempts to mine the oil and gas believed to be in liberal supply below the sea.

The South China Sea is one of the world's most important shipping lanes. The possibility of a naval conflict over sovereignty would engage the vital interests of Japan – 70 per cent of its oil imports pass through the sea – and surrounding claimants. The US, which is not taking sides, would inevitahly become involved if hostilities hroke ont – "the Chinese government's position is clear," says Chen Bingqin, vice-president, China National Offshore Oil Corp. "We want to put the dispute on the shelf and explore [for oil and gas] jointly. It is the only way peacefully to explore the area."

On the question of sovereignty, a senior Chinese government official was adamant: "Sovereignty belongs to China and that's a matter that brooks no discussion."

China claims that there was never any dispute about its sovereignty in the South China Sea until oil and gas were discovered in the 1970s. The Spratly Islands are too far south to show on the above map of China. The size of Beijing's territorial claim – 80 per cent of the South China Sea – is breathtakingly audacious, even by China's standards. The U-shaped claim runs the length of Vietnam's coast and along the western coast of the Philippine islands, meeting off the coast of Brunei and Malaysia to the south.

In 1990, Beijing offered to put the issue of sovereignty to one side and embark upon joint development of the South China Sea. But in May 1992, China awarded Crestone, a relatively small US oil explorer, the right to drill for hydrocarbons in a bloc situated at the extreme south-west of its claimed territory.

In retaliation, Vietnam awarded a consortium of oil companies, led by Mobil of the US, a bloc adjacent to Crestone's and within China's territorial claim. Thia group began prospecting in June.

Both countries have offered naval support to their respective prospectors. In June the Vietnamese navy interfered with a Chinese vessel conducting a seismic survey of Crestone's bloc. The Vietnamese claim similar interference by the Chinese navy. For China, which is likely to remain a net oil importer for many years to come, the promise of abundant oil reserves in the South China Sea would be a boon to its offshore oil industry.

Since 1982, offshore oil finds in the Yellow and East China seas have failed to live up to early expectations. This year the China National Offshore Oil Corporation expects to produce 44m barrels of oil from 12 fields. It hopes to double production by 1997 when other areas come on stream.

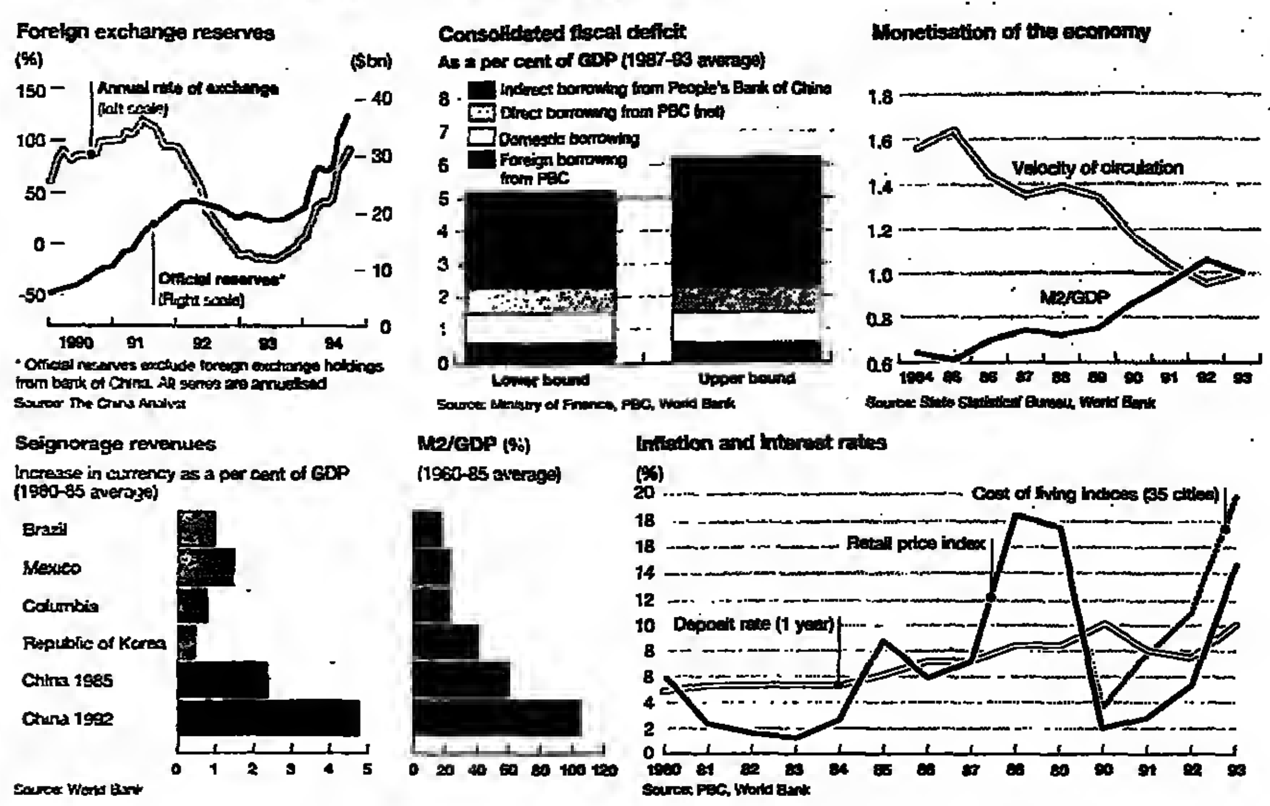
Vietnam, by contrast, is extracting 33m barrels a year from one field in the South China Sea, with production set to rise sharply with the addition of two more oil fields in production by the end of this year.

Simon Holberton

Oil rigs burn off natural gas in the South China Sea — Lois Raimondo / AP

Financial liberalisation has created new sources of monetary growth. Above: crowds throng the Shanghai Securities Exchange *Picture: Cathryn Tremain*

How China has fallen into its inflation trap



Martin Wolf examines China's economic prospects

Zooming in on the threat of inflation

Inflation is the Achilles heel of Chinese economic reform. High inflation helped cause the conditions for the Tiananmen Square demonstration in 1989, partly because of disgust over the associated corruption. Defeating the political opposition then did grave damage to the credibility of the Chinese government, while lowering inflation led to two years of real economic growth at 4 per cent, virtual stagnation by recent Chinese standards.

Failure to rein in inflation this year might prove as damaging. Yet over-zealous efforts to slow the economy could also prove destabilising.

The observer should examine the dilemma confronting the authorities as though through a zoom lens, starting with the close-up.

According to China's State Statistical Bureau (SSB), the cost of living nationwide was 27.4 per cent higher in September than in the same month last year. In response to such pressures, argues vice-premier Li Lanqing, the authorities have to rely on a wide range of economic, legal and administrative means. Accordingly, price controls were imposed on staple foodstuffs in September, even though reformers realise that such measures are at best short term and can seriously endanger longer-term reforms.

Concern about the sharp rise in food prices over the past year is understandable: food makes up more than half of the total weight in the consumer price index; food prices also rose 35.3 per cent in the year to August, while grain prices rose 54.6 per cent.

Food prices may have soared, but those of machinery and electronic products fell slightly over the same period. Producer price inflation has disappeared in response to the tightening of credit that initially followed the 16-point programme of July 1993, masterminded by Mr Zhu Rongji, vice-premier in charge of the economy.

This picture seems inconsistent with the hypothesis of general excess demand. Mr Qiu Xiaohua, spokesman for the SSB, blames recent inflation on supply shocks, pointing to drought in northern China and flooding in the south. Also important has been long-needed administrative price rises for grain and other commodities this year. Mr Lou Jiwei, director of the macroeconomic department of the State Commission for Restructuring the Economic System, points also to higher prices of oil.

Such analyses offer support to the economists who question government policy. Mr Dong Fureng, vice-chairman of the financial and economic committee of the People's National Congress, argues that "if cost is pushing up prices, demand is not the best way to control inflation."

Mr Li Yining, vice-chairman of the law committee of the PNC, insists that credit control even aggravates underlying difficulties. With supply the main problem, he argues that China needs more investment, not less. Mr Li has a point. But what is required is more investment in efficient distribution and marketing systems, which is not what current distorted incentives would secure.

Zooming out to a wider angle, the observer can see that the government's efforts to control credit expansion are indeed justified, for two main reasons.

First, so-called cost-push inflation is usually a lagged response to previous excess demand. In China, for example, administered increases in food prices are a consequence of past failure to adjust prices in line with inflation. Second and most important, uncontrolled growth of credit and money has become a serious threat to China's stability.

Money changes hands as food costs soar: the worry about the sharp rise in prices during the past year is understandable

Recently published monetary statistics show that the broader M2 monetary aggregate grew by 37.1 per cent in the year to the third quarter of 1994, compared with 29.7 per cent in the year to the second quarter. Yet the target for 1994 had been set at only 24 per cent.

Mr Dai Xianglong, a deputy governor of the People's Bank of China (PBC), attributed the excessive monetary growth to higher than planned capital spending by state-owned enterprises (SOEs), lack of budgetary restraint, large rises in wages and salaries for government employees and the increases in payments to farmers. By revealing the figures so promptly, the PBC is trying to strengthen its hand in the fight against inflation. Yet even the PBC may be too complacent about the prospects.

In 1992 the ratio of M2 to gross domestic product in China was 105.7 per cent, far higher than in other developing countries *(see chart)*. Between 1984 and 1992, broad money's velocity of circulation fell from 1.56 to 0.95 – a decline of around 6 per cent a year. *(see chart)*. As inflation rose in 1993, however, velocity increased by 5 per cent, the harbinger of likely embarrassment to come.

Mr Lou argues that the money supply can expand at 20 per cent a year without danger. If real economic growth were to be 10 per cent a year and velocity were to stabilise, this would indeed be consistent with inflation of 10 per cent.

Unfortunately, recent growth of the money supply has been much faster than 20 per cent. In addition, the velocity of circulation could start to rise on a sustained basis. One reason might be the effects of inflation, particularly since real interest rates are currently negative *(see chart)*. Another would be an understandable desire on the part of the Chinese to diversify away from money.

Any flight from money could destroy economic stability. China's past monetary expansion has created a delayed-action bomb. Unfortunately, it will be difficult to halt further increases in its explosive power, let alone defuse it.

One reason for the difficulty is the monetary effects of the accumulation of foreign-exchange reserves. These reached US $39.8bn by the end of September, an 87 per cent increase on 1993 *(see chart)*. The expansion reflects attempts to keep down the exchange rate (unified at the beginning of this year) in the presence of a trade surplus of US $1.4bn in the first nine months of 1993, plus a large capital inflow ($14.7bn in the first eight months).

Financial liberalisation has also created new sources of monetary growth. The assets of non-bank financial institutions – Urban Credit Co-operatives (UCCs) and Trust and Investment Companies (TICs) – have grown explosively, from 6.5 per cent of those of the state banks in 1987 to 12.5 per cent in 1992. These institutions offer state banks and local governments a way to evade central control over lending. Consequently, "augmented" broad money, which includes deposits at UCCs and TICs, has grown faster even than M2.

The most important causes of persistently rapid monetary growth are, however, those alluded to by Mr Dai. The consolidated budget deficit, which includes the directed policy lending of the PBC, has been running at an average of around 5-6 per cent of GDP over the past seven years, reaching 7-9 per cent in 1993 *(see report: Reform of the central bank, page seven)*.

If it were financed through bonds or asset sales, such a deficit need not be that dangerous in the medium term for an economy as dynamic as China's. But virtually all of it has been financed by the printing press. Seignorage – revenue derived from the government's access to the central bank, via expansion of money as a share of GDP – is estimated to have varied from 6 to 9 per cent of Chinese GDP between 1988 and 1992, an exceptionally high figure by international standards.

A little over two-thirds of the seignorage came from real money expansion and the rest from the inflation tax. As inflation rises, however, these proportions will alter. But the monetary basis for seignorage would also start to collapse.

The significance of such a shift for public finance can hardly be exaggerated. In 1992, for example, seignorage from reserve money creation, at some 6 per cent of GDP, amounted to just under 40 per cent of total budgetary revenues. Similarly, direct and indirect government borrowing from the PBC was just under 30 per cent of those revenues. The Chinese government is, it appears, addicted to the printing press.

Now zoom to the widest angle: behind the monetary threat lies the political frailty of central government *vis à vis* the interconnected interests of local government and larger SOEs. Beijing has transferred control over SOEs that generate 80 per cent of total SOE output to local governments, so loosening central control over their investment. The fiscal autonomy of local government, plus its leverage over local branches of the PBC, has exacerbated this loss of influence. The resulting "investment hunger" is revealed in the fact that nominal capital spending was more than 54 per cent higher in July and August 1994 than in the same period of last year, despite supposedly tight central control.

Government economists estimate that of the 11,000 large and medium state-enterprises, one-third are in the red, while another third barely breaks even.

According to the SSB, in the first nine months of this year, 44.5 per cent of SOEs have made losses. One reason is the growing competition they face from township and village enterprises (TVEs), joint ventures and imports.

Nevertheless, 61 per cent of total fixed investment (and 23 per cent of GDP) went into SOEs in 1993. Much of this may not be investment at all, but rather means of disguising losses. Even where it was indeed investment, the absence of a bankruptcy constraint means that much may be wasted. An indication of this is that the share of SOEs in gross industrial output fell from 65 per cent in 1985 to 48 per cent in 1992, even though their share in gross fixed capital formation appears constant.

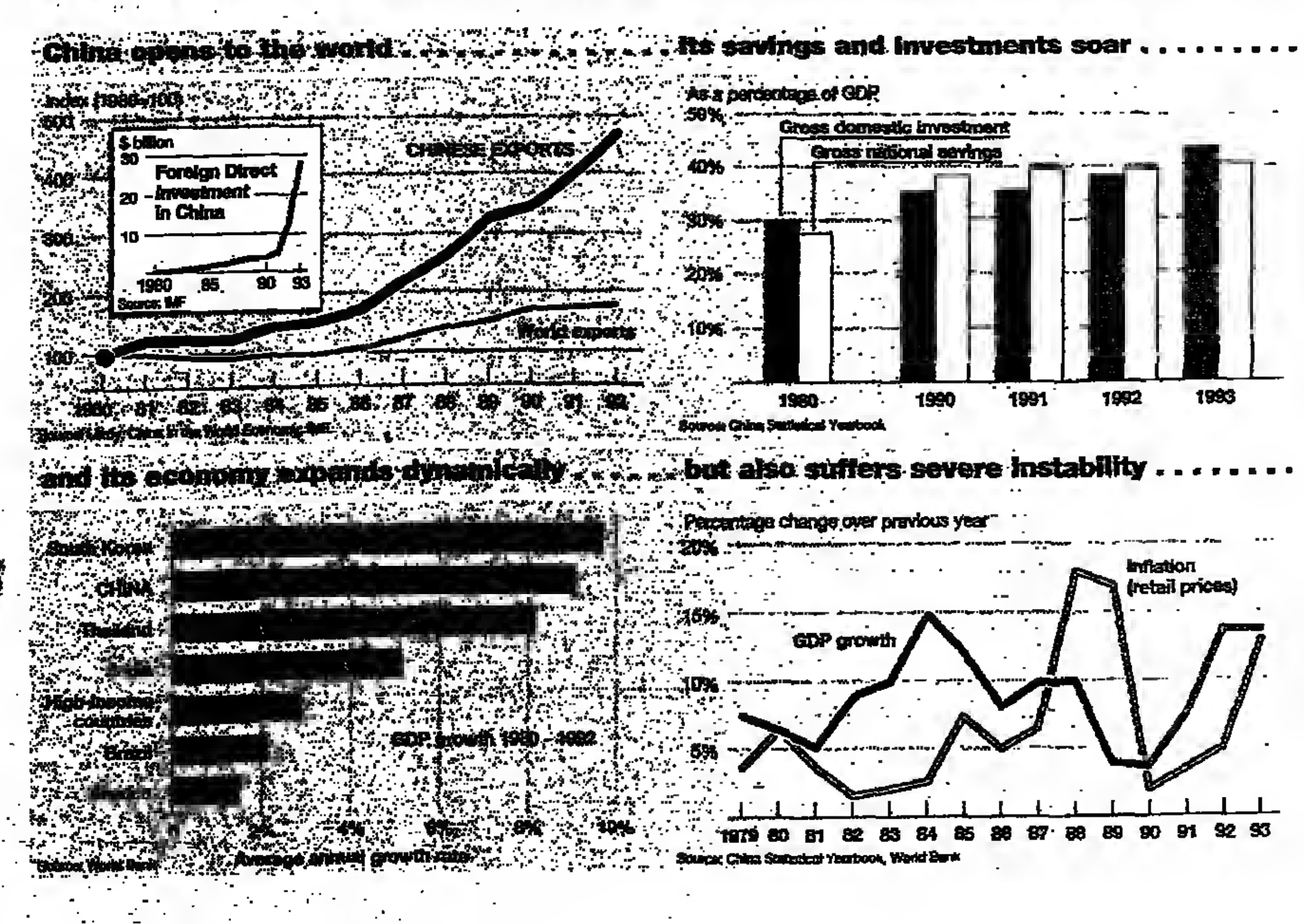
Beijing feeds the SOEs because they offer employment and social welfare to more than 100m people. Whenever tightening of credit leads to an expansion of inter-enterprise debt, the pressure to loosen control over credit becomes formidable. This explains the relaxation of credit in late spring and summer of 1994.

The inability of Beijing to control investment spending, combined with growing SOE losses, is the main reason for weak discipline over public spending. Meanwhile, political decentralisation reduced revenue, as SOEs appropriated the profits they made and local governments took control over fiscal revenue *(see reforming the tax system, page seven)*.

Despite all this, most observers assume that the Chinese path of incremental reform is stable. Hitherto, however, the contradiction between macroeconomic stability and decentralised SOE investment in the absence of bankruptcy has been resolved by the willingness of the Chinese to hold extraordinary amounts of money. It would be foolhardy to assume this will last, particularly if inflation is high.

The big question is whether Beijing can make the alternatives work. Funding fiscal deficits through borrowing on foreign and domestic markets – now being started on a substantial scale, with issuance of more than Yn100bn (US $12bn) in domestic securities this year – will produce an increase in future fiscal deficits, as the interest bill rises. Positive real interest rates on deposits, to persuade people to hold money, would undermine weaker borrowers or increase the subsidy bill. Raising more revenue at the centre means recentralisation of government. Last but not least, curbing credit expansion necessitates either bankruptcy for many SOEs, or greater central control over their activities.

The issue is, at bottom, one of re-imposing discipline, while sustaining the impulse towards liberalisation. Further reform – to push the SOEs into the market and bring local government within a more orderly political system – is urgently required. The big question is political, not economic. It is whether the Chinese government has the will and the capacity to do what is needed.



Martin Wolf examines the country's economic structure and performance

Baffling questions for China-watchers

If, as has been said, there are lies, damned lies and statistics, Chinese data must fall within a particularly obscure sub-category of the latter. People want to know bow poor (or rich) China now is and how fast its economy has been growing. Few questions about China are more important – and none are more difficult to answer.

After 1949, China borrowed both its economic system and its statistical approach from the Soviet Union. Instead of gross national product, statistics were prepared in accordance with the material product system (MPS), whicb exclndes all services not directly related to production (such as education, health, passenger transport and government).

This system also relies on comprehensive reporting from a directly-controlled network of productive units, instead of the more flexible sample surveys used in decentralised market economies. In a command economy, statistics on output are also management accounts, which means thet reporting units have an incentive to exaggerate their output.

Faulty in conception, China'e statistical system was damaged by the Great Leap Forward. Then, during the Cultural Revolution, the national statistical system was closed down for approximately s decade. Even the collection of data on material product did not recover fully until the middle-to-late 1980s.

Mr Qiu Xiaohua, senior statistician at the Stats Statistical Bureau (SSB), admits, in addition, that output of township and village enterprises, whicb are increasingly important to the Chinese economy, continues to be ecantily reported. Also inadequate is information on personal income and expenditure, essential for the calcnlation of gross national product and purchasing power parity (PPP) estimates of national income. Furthermore, the shift to the preparation of data in accordance with the United Nations System of National Accounts (SNA), which started only in 1985, will not be fully completed until the second half of the 1990s.

Given such defects, serious difficulties arise if Chinese data are to be compared either with those of other countries, or over time.

The simplest comparisons should be for GDP at market exchange rates. The World Bank now suggests that GNP per head in 1992 was US $470. India's GNP per head was US $310, it says, bnt even countries like Sri Lanka (US $540) and Zimbabwe (US $ 570) rank above China.

The World Bank'e estimate is a big jump from previous ones, which derived directly from the SSB's measure of GDP per head (in yuan). It is widely believed that the World Bank kept Chinese GNP per head down deliberately to ensure its eligibility for concessional lending. If so, it followed the Chinese lead.

Now, however, the Bank bae delivered an upward adjustment of 34 per cent. Fourteen percentage point of this is for reporting failures. Particularly large corrections have been made for housing consumption, grain output, rural industrial output and rural service-sector consumption, all of which are thought to be eignificantly under-recorded. Meanwhile, eighteen percentage points of the adjustment are for price distortions, the argument being that the output of some sectors – notably housing and coal – are significantly underpriced relative to market economies at comparable standards of living. (Note that the corrections are multiplicative, not additive.)

Even after these upward adjustments, China's GNP in 1992 was only US $546bn, which was smaller than Spain's.

An alternative approach, which seems more realistic in certain respects, is to estimate the purchasing power of GDP at international prices. Since services are very cbeap in poorer countries (becanse wages are so low), the result is to increase estimated GDP relative to richer countries by substantial amounts.

Widely-reported calculations that China already has the third largest economy in the world are derived from what amount to guesses of its GDP per head at PPP. Rather more solidly based calculations on the same lines make India the world's sixth largest economy, which is less widely publicised. As the table indicates, China's GDP at PPP has been estimated at between US $1,000 and US $3,000 per head.

Nobody knows more precisely as yet, because the necessary surveys have not been carried out, although steps are now being taken to do so. But surveys will be particularly difficult in China, because of the country's size and the discrepancy in quality between Chinese goods and services, on the one hand, and those in more advanced countries, on the other.

Some analysts have tried to solve the problem of estimating China's real GDP by relying on physical indicators – such as output of grain, coal or steel – or social indicators – such as longevity, number of pbysicians or school attendance. These are then related to tbe past performance of other countries, in order to obtain estimates of income per head for China today.

Such comparisons are fraught with danger, because the structure of China's economy is quite dissimilar to that of market economies. Its historic emphasis on commodity output and investment, means, for example, that comparisons with past levels of output in the Korean Republic or Taiwan almost certainly exaggerate Chinese GDP today.

Still more risky is casual empiricism. Visitors to Shanghai can see it is quite prosperous, but – as the chart shows – its income per head (at market exchange rates) is utterly unrepresentative of China as a whole. What is also important to remember is that it contains just over 1 per cent of China's population.

The safe conclusion is that China is *still* a very poor country, with e modest GDP at market prices. It has a far larger GDP at PPP, mainly because of the consequent revaluation of its low quality non-tradeable services. The latter adjustment indicates nothing new about China's global significance, however, as is too often supposed, beyond what is already implicit in the buge population.

Can any more confidence be placed in the reported rates of economic growth? Between 1978 and 1993, according to SSB statistics, the Chinese economy expanded at a compound annual rate of 9 per cent a year, for an overall increase of 260 per cent. The largest country that has ever reported comparable rates of economic growth over a long period is Japan, which has only a tenth China's population.

There are good reasons, however, to question both the rate and tbe quality of reported rates of growth. If the measured GDP per head in 1992 and its reported growtb between 1980 and 1992 are worked backwards, GDP per bead becomes US $195 in 1980 (in 1992 dollars). If so, China's income per head wee then below India's – indeed among the lowest in tbe world.

The problem becomes worse if China's growth is worked still furtber back. If official rates of growth are run back to 1965, it turns out that China's GDP per head was less than half of India's in that year. This is inconsistent with statistics on the quality of life in China, compared to India's, *at that time*. It is more plausible to assume the current relationship is roughly correct, but growtb rates in China have been lower.

In common with most state-socialist countries there is also a tendency to under-estimate inflation and exaggerate real output increases. One reason is that this is a way for managers of state enterprises to claim undeserved success. Furthermore, GDP data for the late 1970s and early 1980s are, in any case, known to be both incomplete and inaccurate.

According to successive World Development Reports China's GDP head rose only from US $260 in 1979 to US $370 in 1991, a *nominal* increase of only 42 per cent (see chart), even though the SSB reported e rise of 166 per cent in *real* GDP over the period. The reason for this discrepancy between the growth of Chinese GDP at domestic and international prices was the steep devaluation of the official exchange rate from Yn1.55 to the dollar in 1979 to Yn5.32 in 1991. This slide (which implies a large depreciation in real terms) is a reminder of the price distortions that existed in the Chinese planned economy.

These price distortlons remain pervasive. Foodstuffs, urban housing, many services and coal have been under-priced, while many manufactures have been overpriced, particularly in view of their poor quality. In the presence of distortions, measured growth may mean little improvement in economic welfare. It may largely reflect transfere of income from under-priced to over-priced sectors.

It is worth remembering that reported rates of economic growth under socialism in eastern Europe and the former Soviet Union were generally faster than those of western Europe, while investment was also higher. Yet the opening up of these economies has shown that they were in fact falling further and further behind.

China's economy etill remains state-socialist in important respects. While the share of the state enterprises in output has apparently fallen to below half of total industrial output, more than 60 per cent of total fixed investment, amounting to over 20 per cent of GDP, still goes to the state sector.

Chinese statistics report that nearly half of the increase in total output between 1978 and 1993 was investment and that investment grew by 360 per cent in real terms between 1978 and 1993 (a compound rate of growth of 11 per cent), while consumption grew by only 212 per cent (a compound rate of 8 per cent). Given the uncertainty about the economic rate of return on investment, it may be wise to view the growth rate of consumption as a more accurate indicator of the economy's performance than that of GDP.

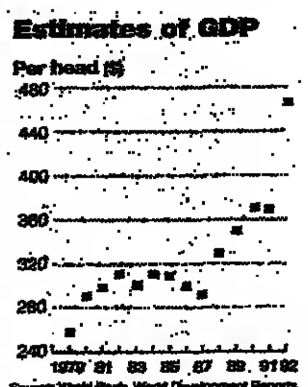
Finally, when considering the quality of growth it is worth remembering the rapidly-growing environmental problems: falling water-tables; dead lakes and rivers; and polluted air. Properly accounted for, such costs would subtract substantially from past Chinese performance. Large sums will have to be expended on cleaning it all up in future.

In sum, both the reported rate of economic growth and its effects on economic welfare must be questioned. Bits of the Chinese economy are internationally competitive; export performance demonstrates that. Equally obvious are improvements in the living standards of the population. Even so, the view that the entire Chinese economy has been growing as fast as South Korea's may be a significant exaggeration.

If one is to know accurately how well China is performing and how rich it is, the shift to an internationally open and domestically competitive market economy needs to be completed. There is still quite s long way to go – and then the statistics must catch up.

Estimates of GDP

Per head ($)



Source: World Bank, World Development Reports

Alternative estimates of China's GDP

Source of estimate	Year	Dollars per capita	Total GDP ($'000bn)	Share of world GDP (%)
World Development Report 1994 [a]	1992	470	0.55	2.4
Lardy (1993) [b]	1990	1,000-1,260	1.14-1.37	8.1-6.1
New York Times (20 May 1993) [b,c]	1992	1,600	1.86	6.0
World Bank (1992) [b]	1990	1,950	2.20	9.9
World Bank (1993) [b,d]	1991	2,040	2.35	10.9
Summers & Heston (1991) [b]	1988	2,308	2.56	15.0
Asian Wall Street Journal (31 May 1993) [b,e]	1990	2,598	2.90	13.0

a Based on the official exchange rate
b Based on the purchasing power of the Chinese currency
c Derived from IMF
d Update of estimates in the previous row
e Extrapolation/update of estimate in the previous row

Source: Nicholas R. Lardy, China in the World Economy (Washington D.C. Institute for International Economics, 1994).

1992 GDP per head

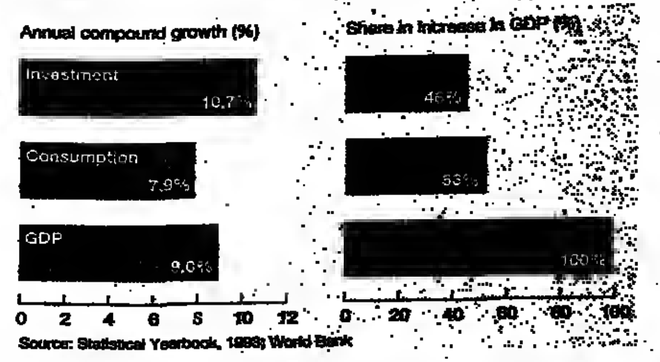
Selected regions

	Population (m)	Per head GDP ($)
Shanghai	13	1,880
Guangdong Province	65	810
East coast*	125	780
East interior**	186	310
West interior***	144	290
China total	1,165	470

* Jiangsu & Zhejiang provinces, Shanghai
**Henan, Anhui and Jiangxi provinces
***Sichuan and Guizhou provinces

Source: World Bank

Pattern of China's economic growth, 1978-93



Source: Statistical Yearbook, 1993; World Bank

Manufacturing company profile:
Shanghai Fenghwa Ball Pen Company

Earning an accolade

In China – notes Cai Ruixing, chairman of the Shanghai Fenghwa Ball Pen Company – the ownership of ball-point pens averages only 0.5 per person. In the US the figure is nine. If Chinese consumption were to reach US levels, more than 10bn additional pens would be sold. Against this, Fenghwa expects to make a mere 155m ball-point pens in 1994, *writes Martin Wolf*.

Cai Ruixing: he keeps a close watch on market trends

As is often the case in China, the numbers are stupefying. But they are not implausible, since pens are a relatively cheap luxury item. The potential for growth must greatly exceed what Fengbws has achieved since its founding in 1948, even though it already supplies 46 per cent of the domestic market for ball-point pens.

As China's economy becomes more open, tbe company's growth will also depend on its international competitiveness. Bnt Fenghwa does not have that much reason to worry. It already exports about a quarter of its output and derives 20 per cent of revenue from its sales to markets in eastern Europe, the middle east, the US, Latin America, Soutb Africa and elsewhere in south-east Asia, including Jspan. Furthermore, the retail price of one of its medium-quality ball-point pens is only some Yn4.5 ($0.55).

What has made such success possible is, argues Mr Cai, tbe programme of management reform, investment, innovation, quality improvement and ettention to markets undertaken since 1991, when he took over his present job.

As important, Fenghwa's output lies squarely within the confines of China'e comparative advantage. The manufacture of ball-point pens, propelling pencils, fountain pens and crayons demands precision and attention to quality. But the processes are labour-intensive and not thet technicslly sophisticated. As a medium-sized company, employing 1,600 people and enjoying a strong domestic reputation, Fenghwa ought to thrive in China'e new economic environment.

So how has the company gone about becoming more competitive?

Mr Cai points, first, to the transformation of management, noting the company's success in passing ISO 9001 (an internationally recognised standard of quality management) last year. An important aspect has been reform of employment practices. The enterprise remains responsible for providing bousing, pensions and other benefits, as is normal in China. But the workers are now employed on contracts of up to five years. In compensation, tbey are paid relatively well by Chinese standards, tbe average annual wage now being Yn11,300, a rise of 140 per cent since 1992.

Second, Mr Cai stresses Fengbwa's investments, including its purcbsse of advanced foreign machinery and its move in 1992 to a new plant in a development zone across tbe river from old Shanghai – "ever since then," he notes, "we have enjoyed a fundamental transformation."

Finally, he notes the company's close attention to market developments and quality. One aspect is product innovation, witb 50 per cent of the 180 models developed in the past three years. Another is tbe company'e recent assumption from the state of all responsibility for marketing – both at bome and abroad.

Central to the strategy was the transformation of Fenghwa from a traditional stste-owned enterprise into a share-holding company. In September 1992, the company was listed on the Shanghai stock exchange and issued 56m shares. Altogether the company has raised more than Yn120m in this way. This sum helped finance its investments, although tbe company also relied on bank loans and re-invested profits.

Now there are 84m shares outstanding, 60 per cent of which are owned by the state, 25 per cent by other enterprises and the balance by individuals.

The shares have at least been a reasonably good investment. Initially listed at Yn5.5 per share, their price peaked at Yn16 and was still – said the cbairman, consulting one of Shanghai's ubiquitous bleepers – Yn9.2 on October 11, 1994.

Where does Fenghwa go now? Its chairman has bold plans to turn it into a group. There will, he hopes, be three or four joint ventures with reputable foreign manufacturers.

There are also plans for two office developments, one on the site of an old workshop in central Shanghai. But its staple businesses will not be forgotten. Fenghwa has been called n "dragon head" plant in the production of ball-point pens. It expects to earn that accolade.

LABOUR MARKET REFORMS

Joblessness is rising rapidly in urban areas

REPORT BY SIMON HOLBERTON

One of the thorniest nettles waiting to be grasped by China's Communist rulers is the management of the country's labour market.

Reforming the labour market is a prime requirement for China's transition from a planned to market economy. Yet reform in this area is potentially a threat to the Communist party's control of Chinese society.

At the heart of the party's control in urban China is the *danwei* system – a cradle-to-grave set of welfare and social constraints which binds every urban worker and his family to s *danwei*, or "work unit." Implicit in this system has been the concept of a job for life as well as constant vigilance over workers' political sttitudes. This is underpinned by a system of "household registration" which requires eacb urban resident to carry s permit to live in the city.

Chinese state enterprises are some of the country's largest work units. Witb officials admitting that s only a third of these state companies are profitable, the day of reckoning is dawning. The once-iron bonds which tied the worker to his workplace and city are beginning to break.

China's urban work force of 180m is undergoing unprecedented upheaval, the clash between a state sector and s vibrant privste sector. Added to the stresses and strains of this big structural adjustment is the relentless pressure of population growth which is forcing the government to sanction, *de facto*, mucb greater job mobility.

China's urban work force grows by 10m a year as school and college leavers enter the market for work.

"We have a huge task to satisfy the employment demands of all able bodied workers in China," says Mr Zhang Liuji, deputy minister of labour. "Supply exceeds demand and we think this situation will last for a long time."

Joblessness is rising rapidly in urban China, giving rise to fears among Chinese leaders that unemployment if not cbecked may lead to social unrest and, possibly, political instability. China's official unemployment figures only hint at the problem. The urban unemployment rate last year was 2.6 per cent; this year officials expect it to rise to 3 per cent, or some 5.4m people.

"Considering there are 5m to 6m workers who have not been paid in months, the real unemployment rate would well double government figures," observed one official newspaper recently. Worryingly, about 80 per cent of the unemployed are young people.

The government expects unemployment to rise in the coming years, the sources of which are twofold. The first is the state sector where currently 15m, or nearly 20 per cent of the total state industrial work force, are estimated officially to be redundant workers still drawing pay and entitlements. The second is the countryside where officials estimate there are 130m surplus workers, 30m of which are expected to flock to the cities in search of work after the Chinese new year holiday next year.

"A whole bowl of rice has to be eaten one spoon at s time," says Mr Zhang, rejecting any shock treatment for the state industries. He says it is the government's hope that by the end of the century state industry can be reformed sufficiently so that manning levels can be rednced to economic levels. A plan, however, to begin an "experiment" with China'e top 100 enterprises, including widespread job shedding, has been deferred for s year.

To deal with rising joblessness the government plans to expand its provision of unemployment services:

□ **Employment exchanges.** By the end of 1993 there were 15,000 employment exchanges in China. These job centres placed 8m of the 11.4m job seekers in work. By 1995 the government hopes to extend the network of job centres to China's rural areas.

□ **Employment training.** There are 2,500 training centres in China which provide pre-employment for unemployed youth and women, as well as skills training for those who have to change jobs. The job training centres have a capacity for 3m; by 1995 the government wants to raise that to 4m people a year.

□ **Subsidies.** It also hopes the unemployed will seize the opportunities provided by subsidies to "employment service enterprises."

These enterprises receive tax bolidays, and cheap loans to buy equipment. At the end of last year there were some 200,000 sucb enterprlses employing 9m; by 1995 the labour ministry wants to see 240,000 enterprises employing 10m. Say Mr Zhang: "It is more important to be employed than receive benefits."

Alongside the worsening outlook for employment, however, has been a noticeable deterioration in conditions for the employed. This is to be expected, given Chian's stage of economic development. However, industrial safety has become a big issue, especially after some

Continued on facing page

Tony Walker highlights the turnaround in China's trade performance

Foreign investors spur exports

China, in the first nine months of 1994, registered a marked turnaround in its trading performance with exports growing much faster than imports. To the end of September exports exceeded imports by $1.38bn compared with last year's trade deficit of $12.2bn.

Not only does this reverse last year's slowing of export growth, but the figures also reveal that foreign-funded enterprises are leading the way in generating exports. This is in line with the government's foreign investment strategy aimed at using foreign funds to build a strong exporting base.

In the first six months of the year exports of foreign-funded enterprises (which inclnde wholly foreign-owned and joint ventures) leapt by about 45 per cent over the same period last year, and are now running at one-third of China's total exports. For the nine months to September, exports increased by 29.7 per cent over last year to $79.44bn. Imports reached $78.06bn in the nine months, growing by 15.2 per cent. This compares with import growth last year of about 30 per cent.

The export surge has been attributed partly to the unification on January 1 of the Chinese yuan resulting in an effective 50 per cent devaluation and partly to China's economic stabilisation programme introduced in July last year which squeezed opportunities at home, making external markets more attractive.

Chinese trade officials have also been encouraged by the changing composition of exports. Miao Fuchun, spokesman of the Ministry of Foreign Trade and Economic Co-operation (Moftec), noted that in the first six months of this year the "export mix continued to improve as demonstrated by further expansion of the proportion of exports of manufactured goods."

These now account for 83 per cent of total exports, sn increase of 3 percentage points over the previous year. Exports of machinery and electronics items continue to grow strongly and comprise a bigger proportion of total exports at 24.8 per cent for the half-year compared with 23.6 per cent for the same period last year.

In this new phase of its economic development China is seeking to encourage growth of higher technology investment at the expense of low technology industrial processing which provides low returns and is a drain on scarce energy resources.

While China's trading performance has taken a sharp turn for the better this year, it is the wider issues of trade reform and Beijing's application to re-enter the General Agreement on Tariffs and Trade that have preoccupied trade officials. At home, China introduced its first-ever "Foreign Trade Law" on July 1 and abroad its officials were enmeshed in difficult negotiations on Gatt entry. The new foreign trade law is in part China's answer to Gatt-related criticism of a lack of transparency in its trading rules. One of the more persistent gripes is that in negotiations with Chinese officials reference is often made to unpublished regulations, many of which tend to be discriminatory.

It is little wonder that China prizes entry to Gatt so highly – the country probably has the most to gain

Governments and businesses have criticised the lack of consistency in trading regulations between Chinese provinces and regions. In response, Mr Miao, the Moftec spokesman, says that China intends to spend three years on building up "a fairly complete system of foreign ecooomic and trade law and regulations."

Trade authorities have also pledged to improve the system of tax rebates for exports. Exporting enterprises, which are obliged to import raw materials or semi-finished products, are often at loggerheads with the authorities over customs and other rebates.

China has also opened further its export sector by encouraging the activities of a growing number of trading corporations – "whereas in 1978 (the year that China resolved to open to the world) foreign trade was monopolised by 12 Foreign Trade Corporations, today over 3,600 FTC's compete increasingly fiercely for export business," says a recent World Bank study*.

This year China also opened to tender exports of items snbject to quota. Initially, 13 sucb items were offered, including foodstuffs and raw materials. Trade officials say the process will be extended to cover all items covered by quota.

Overshadowing the complex issue of internal trade reform, however, are China's difficult negotiations on Gatt re-entry. While officials insist that Beijing has reached the limit of "coocessions" it is prepared to make to become Gatt-consistent, US negotiators are demanding further progress on a range of issues.

In October, Charlene Barshefsky, the deputy US Trade Representative, said China would need to "put its foot on the gas pedal" if it were to meet requirements of Gatt-entry in time for it to become a founder-member of the World Trade Organisation.

The US, which represents the Gatt-community in negotiations with Beijing, has focused on key areas of trade reform in which it says China has made insufficient progress to satisfy Gatt-requirements. These include access to the services sector, financial and non-financial, and enforcement of regulations prohibiting infringement of intellectual property rights. Ms Barshefsky said that the US expected China to eliminate "rampant" piracy in the audio-visual and computer software sectors.

She also complained strongly about agricultural import bans saying restrictions were of "serious concern with respect to China's agricultural schedule in the Gatt-WTO accession."

The stage has thus been set for a tough final stage of negotiations. Li Zhongzhou, director general of the Department of International Trade and Economic Relations, said China would consider abandoning the Gatt and going its own way, thus threatening a "chaotic situation" in world trade.

Mr Li said China had reduced tariffs across the board by 55 per cent, and had also committed itself to phase out most quota restrictions by 1997 in its efforts to satisfy Gatt requirements. But progress in tariff reform is perhaps less impressive than officials suggest. As the 1994 World Bank study* on China's Trade Reform reported, "China's tariffs remain higher, more numerous and more dispersed than those of most other large developing countries."

China's interest in securing Gatt membership is attributable to its desire to be a founder WTO-member and, perhaps more important, to its interest in benefiting from the Uruguay round liberalisation, which is dependent on Gatt accession.

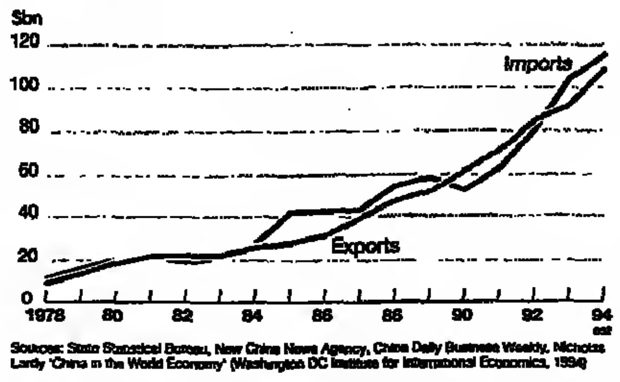
The World Bank estimates that if protection levels in the EU the US and Japan were reduced by 50 per cent, China's exports would increase by an estimated 38 per cent, or $11.4bn, in terms of 1988 prices. China would also benefit from Uruguay round tariff cuts that would erode the preference margins other developing countries enjoy, and China does not, under the Generalised System of Preferences.

The US expects China to eliminate 'rampant' piracy in the audio-visual and computer software sectors

It is little wonder that China prizes Gatt entry so highly. Of all the world's big trading nations, it probably has most to gain.

** China: Foreign Trade Reform. (World Bank Study, 1994)*

Foreign trade



Sources: State Statistical Bureau, New China News Agency, China Daily Business Weekly, Nicholas Lardy 'China in the World Economy' (Washington DC Institute for International Economics, 1994)

US trade deficit with Greater China

$m	Deficit with Greater China	Deficit with China	Deficit with Taiwan	Deficit with Hong Kong
1987	25,876	2,796	17,209	5,871
1988	20,624	3,490	12,585	4,550
1989	22,644	6,235	12,978	3,431
1990	24,411	10,431	11,175	2,805
1991	23,673	12,691	9,841	1,141
1992	28,371	18,309	9,346	716

Source: US Department of Commerce, International Trade Administration, Lardy

Dynamic Shanghai: China's principal port and the richest city in the nation. Last year, 3,650 foreign investment projects, worth $7bn, were approved in the area. Construction work is evident in around 5,000 building sites

CITY PROFILE: SHANGHAI

The roar of the dragon

Shanghai was opened up to the outside world some 10 years later than other coastal areas, snch as Guangdong and Fujian. But China's largest city, with a population of close to 13m, is desperately striving to maka up for that lost time.

According to the official statistics, the city's gross domestic product has been rising, in real terms, at almost 15 per cent a year over the past three years. If growth were to be sustained at this rate, Shanghai's economic activity would double every five years. Already the richest place in China, it looks almost certain to be the first significant part of that vast country (apart from Hong Kong) to attain developed status.

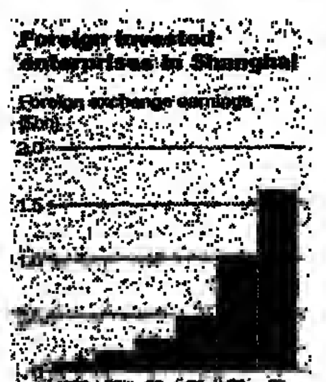
Shanghai's recent dynamism represents a marked change from the 1980s, when Shanghai was kept on a chokingly tight rein by a central government dependent upon it for more than half its revenue. Between 1985 and 1991, Shanghai's real income stagnated, while those of Guangdong and Fujian more than doubled. But the decision to loosen the reins was finally taken at the highest levels of a government that contains many officials from the city. Now it is talked of as "the dragon head" of the Yangtse river basin, home to more than 300m people.

Construction is everywhere, with work continuing day and night. An official publication, *Shanghai Today*, writes of 5,000 constructions sites.

The statistics on Shanghai's dynamism are as impressive as the visible signs of activity. They have evidently impressed potential foreign investors. Last year 3,650 foreign investment projects were approved for a total investment of $7bn, according to Wang Zu Kang, chairman both of Shanghai's Foreign Economic Relations and Trade Commission and of its Foreign Investment Commission. (The first director of the latter was, he notes, Zhn Rongji, now China's senior vice-premier in charge of economic reform). In the first nine months of 1994, a further 3,000 projects have been approved, for a nominal value of $7.7bn. Two-thirds of all tha projects approved for Shanghai since 1988 have, in fact, been approved since the beginning of 1993.

The aim of Mr Wang's commission is, he says, to provide "one stamp, ona bridge, ona window and one station" for foreign investors. This seems to work. Shanghai is already, notes Mr Wang, home to investments (mostly joint ventures) by almost 140 leading multinationals, inclnding Volkswagen, AEG and BASF of Germany, Pilkington of tha UK, General Electric of the US and Philips of the Netherlands. The VW joint venture produces 100,000 cars a year and is, he says, expected to produce 200,000 soon.

Foreign invested enterprises in Shanghai



The question that must occur to any visitor is where cars that end up in Shanghai will fit. The biggest disadvantage of the city, apart from the relatively high cost of land, is the creaking infrastructure. Shanghai is choking. In rush hour, for example, it can take two hours to drive from Pudong to the Bund, the celebrated area of old Shanghai on the Huangpu river.

In response, the municipal and central governments have invested Yn20bn ($2.3bn) in large projects in the past three years. There are now 10 more, while investment is running at Yn20bn a year. The authorities recognise the scale of the required investment and hope foreign investors will help fill the gaps. Investments include two completed bridges, an overhead inner ring-road, an outer ring road, a port, a new airport, new power plants and a new underground. Most important of all, in Pudong, across the river from old Shanghai, a naw economic zone with an area of 522 sq km is being constructed. It already contains 4,000 industrial enterprises with 400,000 workers.

Yet the city possesses advantages along with the drawbacks, now being partially remedied. It is, for example, China's principal port, with exports and imports of $12.7bn last year. It is also the country's financial capital, hosting the dynamic stock market and the still newer foreign exchange market, established only in April of this year.

Shanghai contains China's largest reservoir of skilled labour. It has 50 colleges and universities, with a total enrolment of more than 120,000 students and 1,600 research and development institutes. Foreign employers praise the technical skills available, although skilled office staff is scarce.

A particular concern – says Dr Hans Geelhaar, general manager of Shanghai Gao-BASF Dispersions – is a shortage of people who combine English with knowledge of modern accounting and finance. Employees used to traditional practices can also prove somewhat relnctant to take responsibility and display initiative.

Inevitably, Shanghai has the problems of any old and long neglected city attempting rapid economic growth. But this particular old city has huge potential. Great difficulties lie ahead: some of the speculative building is, for example, certain to prove a mistake. But there is no mistaking either the energy of the people or the determination of the authorities. As befits the head of the dragon, Shanghai is roaring.

Martin Wolf

Office rents compared: see key facts, page 9

Sharp rise in labour disputes

Continued from facing page:

high profile industrial accidents in factories owned by investors from Hong Kong, Taiwan and Korea.

There have been widespread demonstrations in China's north-east over the past year, protesting at working conditions, low pay and unemployment. Nation-wide there has been a sharp rise in labour disputes this year. Figures for the first quarter showed that there had been more than 3,000 disputes referred to in 20 provinces and municipalities – some 66 per cent more than for the previous period of 1993. Officials believe there is little reason to expect that full year figures will show much of an improvement in labour relations. Labour ministry officials hope that a new labour law, which came into force in July, will help to ameliorate some of the problems in China's factories. When introducing the law earlier this year Mr Li Boyong, the labour minister, said the law would protect the legal rights of labourers and "establish and maintain harmonious relations between employers and employees".

It is unlikely that the law will be successful in this aim. Its thrust is, after all, to promote labour market efficiency. The law makes it easier for companies to hire and fire workers; offer pay based on skills and performance rather than just seniority as was the case in the past; and negotiate the terms on which a worker is hired.

Labour contracts were introduced experimentally in 1983 and were formalised in 1986. They apply to new workers and greatly increase the flexibility provided to enterprises to reject unsuitable candidates. Yet, in spite of this, the penetration of the contract system in the state enterprise sector was low – just 27.6 per cent of enterprises had adopted labour contracts by the end of June this year.

Foreign investment: US companies are increasing their involvement, reports **Tony Walker**

Projects grow in size

Foreign investors continued to pour funds into China in 1994 with actual utilised investment in the first nine months rising to US$22.72bn, up 49 per cent on the corresponding period last year.

But numbers of new foreign invested projects and the volume of contracted investment declined after the frenzied activity of 1993 in which pledged funds exceeded those for the previous 14 full years.

Numbers of new projects were down by 46 per cent to the end of September compared with last year, and pledged investment dropped by about 32 per cent to $57bn. This inevitable slowdown also corresponded with attempts by the authorities to calm an overheating economy.

But the figures, nonetheless, are impressive. From 1979 – the year that China opened its doors to foreign investors – to the end of September more than 210,000 foreign-funded ventures were approved with pledged investment of $275bn. Actual investment had reached $85.1bn

Ministry of foreign trade officials predict that utilised investment this year will top $30bn compared with $26bn last year. This will represent about half of all foreign direct investment to developing countries worldwide, an indication of the strength of China's continuing appeal to international investors.

But the figure could easily be much larger. Delays in resolving internal arguments over the appropriate returns for investors in infrastructure projects, especially power plants, is holding up at least half a dozen power projects worth several billions of dollars in foreign investment.

According to electricity ministry officials, China will need to spend at least $67bn on new power plants by the end of the century to lift its generating capacity from the present 183,000 Mw to a targetted 300,000 Mw. About one quarter of these funds would come from foreign investors.

The telecommunications industry is another that is set to increase sharply its investment in China. The announcement last month that Hong Kong Telecom would invest $260m in a fibre optic link from Hong Kong to Beijing and a mobile telephone network in the Chinese capital is one of many instances of planned telecommunications sector investment.

Motorola, AT&T, Ericsson, Northern Telecom, Alcatel, Siemens and NEC all have ambitious investment plans. Motorola, for example, will have invested $300m by the end of this year in factories producing cellular phones, paging systems and semi-conductors.

AT&T, after a slow start, plans $150m in investment in the next two years in nine joint ventures manufacturing such items as optical fibre cable, switching gear and transmission equipment.

Consumer products companies are also in the vanguard of foreign investors. Unilever, Procter and Gamble, General Electric and Electrolux have all recently announced ambitious plans to target the household products and appliance markets.

The petrochemicals and agrichemicals sector is another that is poised to increase significantly its stake in China. Among large foreign institutions either involved in ventures on the ground or in negotiations are Aramco, the Saudi Arabian state oil company, Shell, ICI, BP, Zeneca and Du Pont.

Automotive companies have also stepped up their efforts to secure a foothold. Car giants, including Toyota, Ford and General Motors, are jostling for a share of what promises to become – by early next century – the world's biggest new market for passenger cars and commercial vehicles.

Direct overseas investment in China
The top ten investors: 1979-1993

Country	Number of projects	Pledged investment, US$bn
1. Hong Kong/Macao	114,147	150.9
2. Taiwan	20,982	18.46
3. United States	12,019	14.6
4. Japan	7,812	8.9
5. Singapore	3,122	4.8
6. United Kingdom	616	3.3
7. Thailand	1,399	2.1
8. Canada	1,540	1.8
9. Germany	569	1.4
10. Australia	1,309	1.2

Source: FT statistics

But for many foreign investors, large and small, involvement in China has been a frustrating and, in many cases, expensive business. According to a recent government survey, between one-third and one-half of foreign-funded enterprises are loss-making in what is, by any standards, an extremely difficult commercial environment.

A western embassy in Beijing in a report warns potential investors to beware of what it describes as "China factors" before committing themselves. These include the parlous state of much of the country's infrastructure; difficulties of arranging distribution and supply due to a crumbling transport system; lack of convertibility of the yuan; bureaucratic strictures that complicate personnel management; opaque rules and regulations; and an unreliable legal system whose dispute-settling mechanisms are loaded heavily against the foreign party.

But for all these problems it seems there will be no stopping, for the time being, the "stampeding herd." High profile missions such as the one in August led by Mr Ron Brown, the US Commerce Secretary, in which some $6bn in contracts and letters of intent were initialled, tends to feed what is known as "China fever" among investors who perhaps lose sight of the difficulties in their desire to become engaged.

Growing American business involvement on the ground in China is one of the striking features of the past year or so, and this in turn is being reflected in the investment figures with a distinct trend towards larger-scale projects.

In the first eight month, the average investment in a single project was $1.7m compared with $1.3m in the same period last year.

These figures also reflect the fact that whereas Hong Kong and Taiwanese companies, many of which are involved in small-scale processing activities such as textiles, dominated the field initially, it is now the multinationals who are moving into China in a big way. Japanese companies, which were initially wary, are part of this trend, along with the South Koreans.

Among other factors responsible for the drop this year in numbers of ventures and new pledged investment was the introduction of a new tax regime on January 1. This imposed a capital gains tax on property transactions, thus dampening real estate speculation. The new measures also ended the practice of foreign funded ventures being allowed to import cars duty-free.

The latter "privilege" had been widely abused with Chinese entrepeneurs establishing companies using relatives or friends abroad as "frontmen" to enable them to import luxury cars, free of customs duty. The establishment of thousands of such bogus enterprises had vastly inflated numbers of so-called "foreign-funded" joint ventures.

Apart from a trend towards larger projects, foreign investment also became more widely distributed with inland provinces showing a bigger percentage jump (from a low base) in new investment than coastal regions. According to a study by the State Administration for Industry and Commerce (SAIC), provinces like Guizhou, Hubei and Gansu doubled numbers of overseas-funded enterprises in the past year or so; although there remains a vast development gulf between the coast and the hinterland.

After China's 15-year open door experiment what emerges from the latest figures is the significant impact foreign-funded ventures are having on the nation's trade.

In the first six months of this year imports and exports of these ventures were up by 45 per cent over the same period last year to $35.78bn or 36.7 per cent of total trade. Exports reached $13.47bn, an increase of 44.5 per cent over last year compared with a rise of about 30 per cent in the national export figure.

This will be a pleasing result for the authorities who look to foreign investment to boost exports.

Multinational case study: Unilever in China

'Wait – and you'll be too late'

Surprised by the success in Beijing of Unilever's face cream, a visiting scientist recently asked a Chinese secretary at the Anglo-Dutch consumer goods group's local subsidiary what people had previously used to protect their skins against the very cold, dry winter winds.

She was stumped for the product's English word but wrote down its chemical formula – "Ah, glycerine!" said the scientist, grateful for the answer and impressed by the secretary's scientific training.

Although Unilever and other multinationals are finding good staff, finding enough is a problem and the main limiting factor affecting Unilever's Chinese rate of expansion. "We couldn't grow any faster if we wanted to," says a senior executive.

Starting with a handful of people in China a decade ago, Unilever has enjoyed one of the fastest growth rates of any foreign company in China. The 700 people it employed two years ago have reached 2,500 today, of whom only 80 are ex-patriates.

The local employees range from production workers to more than 50 recent university graduates who, like the secretary, are being drawn rapidly into the multinational's management training programmes in China and abroad.

From first contacts with Chinese authorities in the early 1980s, the company moved in the mid-1980s to negotiating joint ventures and finally to investing $9m in its first three projects in the late 1980s.

Today, Unilever has eight joint ventures running or planned, with $200m of investment spent or committed. A further $100m will be spent each year for the next five years, it announced recently on the eve of opening an ice-cream factory in Beijing.

China is "top of the list" of Unilever's target emerging economies, says Mr Morris Tabaksblat, the group's Dutch co-chairman.

The group expects its Chinese sales to rise from $200m a year to $1.5bn in 1999. It declines to discuss current profitability but "we should see good returns by the end of the decade," says Mr Alexander Kemner, head of Unilever's East Asia and Pacific region.

Like some other multinationals, Unilever's Chinese roots go back many years. Lever Brothers, its British arm, built a factory in Shanghai in the early 1920s. It became China's largest maker of soap for laundry and personal use but operations were nationalised in 1951.

During the 35-year hiatus until it re-established itself in China, Unilever's plant was used by state enterprises and its famous Lux brand lay dormant.

Its first joint-venture in 1987 took it back to the old Lever Brothers site but to a different factory in the complex. The venture, Shanghai Lever, is owned 54.5 per cent by Unilever, 40.5 per cent by the Shanghai Soap Factory and 5 per cent by the Shanghai Daily Chemicals Corporation.

The venture is a factory within a factory. Part of the soap factory was cleared, and re-equipped with the most modern machinery to make Lux toilet soap. The product range has grown to include shampoos, shower creams, fabric softeners and kitchen/bathroom cleaners.

The other two ventures in Unilever's first phase were Shanghai van den Bergh (an equal joint venture with a local partner) to produce edible fats, mainly for baking and ice cream, and Shanghai Pond's (also equally split) making skin creams and lotions under the Pond's and Vaseline brands.

Gaining experience in these projects, it has moved on to five more ventures in detergents, toothpaste, ice-cream and tea. It has taken a bigger stake in each successive business to a maximum of 85 per cent in its Beijing ice-cream factory. It says, however, that there will long be a need for a local partner to help guide ventures through the bureaucratic maze.

Some foreign companies say they have been happy to leave their partners to solve problems, such as unreasonable demands from local suppliers and officials. The solution varies but can sometimes require payments. Unilever says it has found no such problems but has drawn heavily on its partners' local expertise for other purposes.

Difficulties abound in virtually all aspects of the businesses from raw material supplies and transport to marketing and sales; price increases on some local raw materials have made imports cheaper; it can take three weeks to ship finished goods 1,000km from Shanghai to Beijing; TV adverts have to be produced abroad and sent to some 300 individual stations; copy for print campaigns has to be sent to each of hundreds of newspapers and magazines.

It can also take up to six months to get a price increase approved by officials; distribution systems are product-specific so Unilever cannot, for example, send soap via its toothpaste distributor; reform of the government-dominated retailing system is only just beginning; and western-style advertising, marketing and management concepts have to be taught from basic levels.

In a Shanghai department store, a shopper inspects Shanghai Lever products under the Lux brand

But for Unilever, the overriding importance is to be in China building its experience, knowledge, brands and business – "if you waited until the risks in China were lower, then you would simply be too late," says Mr Anton Lenstra, chairman of Unilever China.

Roderick Oram

Manufacturing case study: Pilkington's joint ventures

An open door to opportunities

China represents a once-in-a-lifetime opportunity for companies across the whole range of industrial activity, from automobiles to telecommunications and beyond. One company that has done better than most in laying down roots in China is Pilkington, the UK-based glass maker.

Pilkington was one of the first western companies to walk through China's "open door," pushed ajar by Deng Xiaoping, China's senior leader, in 1979. In 1983 the company signed a joint venture agreement to install China's first "float glass" manufacturing plant using Pilkington's technology. By 1988 the 5,000 tonnes a week plant was in production.

Located in Shanghai's Pudong special economic zone, Shanghai Yaohua Pilkington Glass (SYP), is in the enviable position of not being able to produce enough glass to meet demand. Since 1989, SYP has made a profit after interest and dividends; last year it was listed on the Shanghai bourse, fast becoming one of the most highly-rated listed companies in China.

Mr Zhang Sanfu, the company's managing director, is now one of the most sought-after executives in China by western investment bankers. In September he was in the US speaking at a conference organised by Merrill Lynch, the US securities house. While there, he took soundings about the possibility of raising capital to expand his glass works.

The company is already adding a second "float line," which will have capacity to produce 2,500 tonnes a week of glass mainly for the automotive industry. It is due to begin production in October 1995. Mr Zhang wants to add a third float line (capacity 3,500 tonnes a week) soon after the second line is completed.

Pilkington retains an 8.35 per cent in SYP, having being diluted from its original 12.5 per cent at the time of the company's flotation last year. The UK company maintains a close relationship with SYP in Shanghai and is keen to develop its business in other industrial centres in China.

"It is fairly logical for us to look at China," says Mr Terry Ginty, vice-president Asia Pacific. "The market is growing and there are significant opportunities."

Mr Ginty says that Pilkington's strategy in China is simple and opportunistic – "you can't have a hard-and-fast policy. You have to have a feel for opportunities and take them when they come along. It's a big market. But in general our strategy is to look for manufacturing opportunities where there isn't a strong local glass maker."

The first opportunity the company took up was to partner Taiwan Glass in a venture in Qingdao. Taiwan Glass has been a partner of Pilkington's for more than 20 years and when it decided to invest in a float glass plant in Qingdao, Shandong province, it asked Pilkington to join it. The UK company has taken a 10 per cent interest in the plant.

The Qingdao investment, however, was more by way of a favour to a long-standing customer and friend. What Pilkington really wants to do in China is to take larger and larger stakes in ventures targeted at the automotive glass industry and the market for flat glass more generally. It is actively scouting sites in China to expand its activities in float glass.

This year it has signed two joint venture agreements, one in Changchun, Jilin province, and another in Wuhan, Hebei province, which has given it 35 per cent of the former venture and 45 per cent of the latter. Both are in automotive glass.

In Changchun, Pilkington's partner is Changchun Tempering Glass Company and the venture will supply automotive glass to the First Auto Works. This state company assembles Audi 100s for German car manufacturer. Volkswagen and additionally has a joint venture with VW to produce the company's Jetta sedan. Phase one envisages output of 150,000 Jetta cars, rising to 300,000 after the implementation of phase two.

Pilkington's other partner is SYP which owns 23 per cent of the joint venture company – "it is looking for vertical integration," says Mr Ginty, who is also deputy chairman of SYP. The glass plant will have capacity initially for 200,000 sets of auto glass. "They [the VW joint venture] will probably look for two suppliers," he says. "Traditionally, one takes about 70 per cent of the production and the other, 30 per cent. We aim to be the prime supplier. We're confident that we can earn that position."

The second foray into automotive glass – the joint venture in Wuhan – is similar to the first. The foreign car marker this time is Citroen, and planned output levels are identical to the VW venture: 150,000 Citroen ZX model sedans in the first phase, rising to 300,000 in the second.

What is different is that Pilkington has effective control, with 45 per cent of the equity – "we wanted to get the feel of majority ownership and run the company," says Mr Ginty. "With Changchun, we couldn't get a majority – the value of the existing assets decided the equity shares. In Wuhan it was a matter of negotiation."

The main partner here is China Yaohua Glass Company, the oldest glass maker in China. But, as with the Changchun venture, SYP has a stake in the company as well. "Equity as such doesn't mean a lot in a joint venture," says Mr Ginty. "If you can't work together, you wouldn't be in the venture in the first place."

Simon Holberton

Conglomerate profile: Citic

Moving into sharper focus

As China International Trust and Investment Corporation, (Citic), approaches its 15th anniversary, it has decided the time has come to get back to basics, writes Simon Holberton.

"We are trying to narrow the spectrum of our investments," says Mr Wei Mingyi, Citic's chairman. "We have a guideline for our subsidiaries – never open a restaurant again."

That is a reference is to a prohibition on unrelated investments, no matter how attractive they may appear to be. For Citic the management theme now is "focus" and the agenda is crowded with large developments on the China mainland, including port development, power generation, real estate and telecommunications.

In addition to sharpening its focus, Citic's Beijing management is also tightening controls, especially those applying to investment – "we have more than 30 subsidiaries and we can't control each and everyone," says Mr Wei. "But we can control each project. When any of [the subsidiaries] want to invest more than Yn3m they have to be referred to Beijing. We co-ordinate all the large projects."

Taking pride of place among these developments is the transformation of Daxie Island, situated to the south of Ningbo port and offering access to China's industrial heartland in the Yangtze river delta. Citic plans to invest $500m seed capital in the project.

China's premier conglomerate is looking, however, for $3bn to $6bn from foreign investors to turn the dream of a 31 sq km industrial park, supporting a container port the size of that in Hong Kong, into a reality. Citic recently entered into a joint venture with Bechtel, the US construction company, to provide marketing, operations and services for the island development.

This month, Mr Wei expects a floating bridge connecting Daxie with the mainland to be finished – "we will also begin construction of a temporary dock – with the capacity to handle 20,000 tonnes vessels – so that transport of equipment and cargo can be handled much more easily," he says.

Already, overseas business

Continued on page eight

هكذا من الأصل

BANKING AND FINANCIAL REFORMS

Slow, painful progress

When the third plenary session of the 14th central committee of the Chinese Communist Party approved sweeping reforms of the financial sector in November 1993, the decision was hailed as a breakthrough.

Twelve months later it is clear that actual reform of the banking system will prove painfully slow, and that it will be many years before China has constructed a modern financial sector to match its growing economic weight internationally.

One indication of the difficulties involved in pressing ahead with financial reforms is the fact that the new Central Bank law is making slower-than-expected progress through the review mechanisms of the standing committee of the National People's Congress, some of whose deputies are wary of plans to expand the bank's authority.

Discussion has focused on the role of a powerful monetary policy committee, to be established under the law. Sections of the bureaucracy such as the planning apparatus, which have been used to the People's Bank acting as a milch cow for their needs, are nervous about proposals to increase its independence.

Among key elements of the new law is an end to the bank's direct financing of the budget deficit.

Membership of the monetary policy committee will, of course, be crucial to exerting continuing influence over the central bank as it becomes a more independent institution under the planned financial sector reforms. The People's Bank governor would be chairman, and members would come from ministries as well as the central bank itself.

Last November's party plenum nominated three areas for the transformation of the People's Bank into an institution that would, in theory, wield much the same power as its counterparts in North America, Europe and Japan, though under present circumstances it is difficult to envisage any Chinese institution freeing itself from fairly pervasive political influence.

China's 'Big Four' banks have a total of 120,000 branches and 1.3 million employees

Under the plenum directive the People's Bank would first carry out independent monetary policy to maintain a stable value of the currency and to enforce financial regulations: in other words, lead the fight against inflation. The monetary policy committee would lay down guidelines for managing monetary and credit policy.

Secondly, gradual implementation of the reforms would see the replacement of the credit plan by indirect instruments of monetary control such as interest rates and open market operations. The latter has begun in limited fashion through the trading of People's Bank bills on the Shanghai exchange.

Thirdly, it is proposed that regional "suprabranches" of the central bank be established to replace existing branches in provinces, cities and towns. This streamlining and strengthening of the People's Bank supervisory apparatus would be aimed at countering political influence at provincial level, one of the main threats to central bank independence.

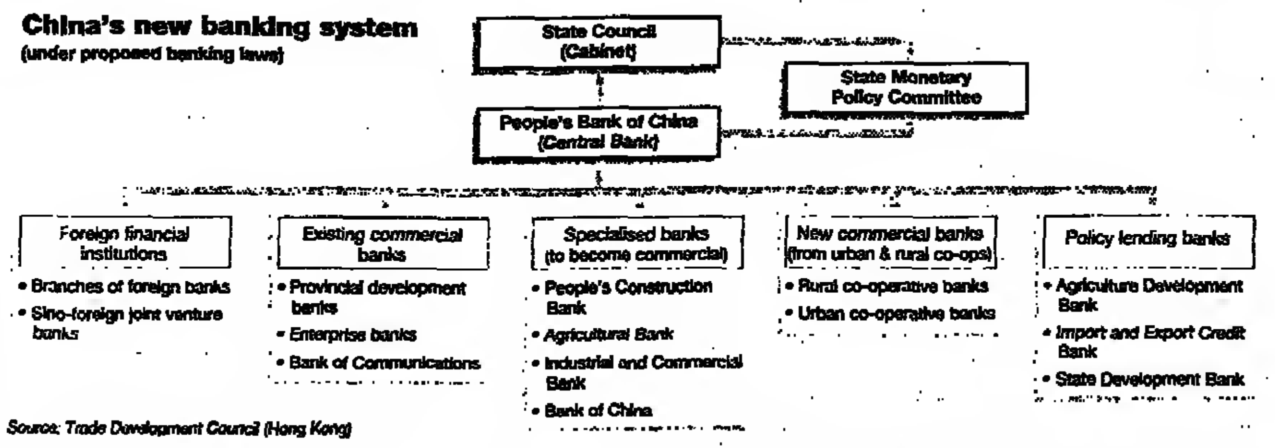
Other elements of financial sector reform endorsed by the party plenum included the transformation of the specialised banks into commercial banks, and also the conversion of rural and urban credit co-operatives into small-scale banks serving the credit needs of small-to-medium-sized enterprises and the local economy.

Finally, the plenum sanctioned the establishment of three policy banks to separate policy lending from commercial lending, thus creating favourable conditions for transforming the specialised banks into commercial banks. China's big four specialised banks, which include the Industrial and Commercial Bank (ICBC), the Agricultural Bank (ABC), the Bank of China (BOC), and the People's Construction Bank (PCBC) are weighed down by policy lending responsibilities, chief of which is an obligation to continue propping up failing state enterprises.

The three new policy banks are the State Development Bank (SDB), responsible for channelling long-term development credit to infrastructure and the state's key industrial projects, the Agricultural Policy Bank (APB), and the Export-Import Bank (EIB) whose mission is defined as lending to trade projects guided by trade policy considerations.

In addition to the central bank law, a commercial bank law, the Banking Act, is also in preparation. This would define the legal rights and obligations of the specialised banks towards state enterprises, and in theory provide these institutions with legal protection from being obliged to make "policy" loans to failing enterprises.

China's new banking system
(under proposed banking laws)



Source: Trade Development Council (Hong Kong)

While the above constitutes an ambitious programme of reform, Chinese officials themselves freely admit that the task is daunting. Not least of the problems facing institutions like the People's Bank is the sheer numbers of staff that would need to be shed before a meaningful rationalisation of its activities could take place.

China's central bank employs 170,000 people in some 2,500 branches and sub-branches spread across the country. Vast numbers of staff would become redundant under a planned new computerised payments system (settlement accounts held by commercial banks at city and county levels would be slashed from 115,000 to 10,000), but it is not clear that the People's Bank is ready to deal with the personnel upheavals that would be involved. The four specialised banks, if they are ever to be transformed into commercial institutions, face a similar problem, although of much greater magnitude. China's "big four" banks have a total of 120,000 branches and 1.3m employees.

But far beyond the administrative barriers to reform of the specialised banks is the overwhelming problem of their obligation to continue funding ailing state enterprises. According to official estimates 20 per cent of loans to state enterprises are non-performing (what the Chinese describe as "problem" loans), but the truth is that no-one really knows.

An indication of the dimensions of the problem can be gleaned from the fact that at the end of 1993, total loans of state banks amounted to Yn2,600 trillion, of which more than 70 per cent was working capital loans mostly to state enterprises. Mr Tang Xu, director of the Graduate School of the People's Bank, commented ruefully in a recent article: "Some of the enterprises are losing money and cannot repay loans on time, but the banks have no means to force them to do so. Worse still, they often have to increase loans to help maintain (political) stability ... the balance sheets of the banks, however, do not accurately reflect the situation and may even record profits because of the accrued interest from these loans."

China's World Bank advisers say that while progress in the reform of both the operations of the central bank and the specialised banks will depend to a large extent on stopping the haemorrhaging of state enterprises, glimmers of promise lie in the fact that Chinese bankers now appear to have a better understanding of what is required to deal with the problem.

But as with other developing countries China lacks the skilled manpower in its regulatory agencies, such as the central bank, to monitor developments and exercise control, especially at provincial and county level. A weakness of the new central bank law is the lack of provision for the adequate supervision of non-bank financial institutions such as trust and investment companies, some of which are offshoots of the banks themselves. This is clearly an unsatisfactory state of affairs. As a World Bank official says: "Reforms of the financial sector still have a long, long way to go."

Tony Walker

Martin Wolf on the country's central bank, the People's Bank of China

Changing the climate of ideas

As China becomes a market economy, albeit a "socialist" one, it needs a proper central bank. What it has, instead, is the People's Bank of China. If the latter is to become a less unsatisfactory institution, major reforms must be made to its internal structure. But changes are needed still more to the public finances, to the operation of local government and state-owned enterprises, to the financial system and, not least, to the climate of ideas about monetary policy.

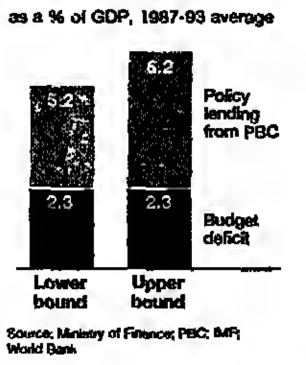
According to World Bank calculations, China's consolidated fiscal deficit has run at an average rate of between 5.2 and 6.2 per cent of gross domestic product over the past seven years. Moreover, the PBC has been financing about 60 per cent of this. In 1993, total gross lending by the PBC to the financial system, largely for so-called "policy-lending", reached 8.5 per cent of GDP. While central bank financing on this scale is incompatible with monetary stability, alternatives involve raising taxes, lowering spending, or raising money in more costly ways.

Almost as important as the size of monetary financing is the loss of central control over credit expansion, largely a result of administrative decentralisation. Local government-led excess demand tends to be accommodated by the expansion of planned credit ceilings, which leads, in turn, to higher levels of PBC lending.

Because government (at all levels) is so dependent for financing on the PBC's printing press, the authorities have also had to restrict the financial liberalisation that would allow the emergence of more competitive alternatives to cash and bank deposits. This, however, creates yet another obstacle to central bank reform: the lack of sophisticated securities markets, which would permit monetary policy to operate other than disruptively, through overall credit ceilings.

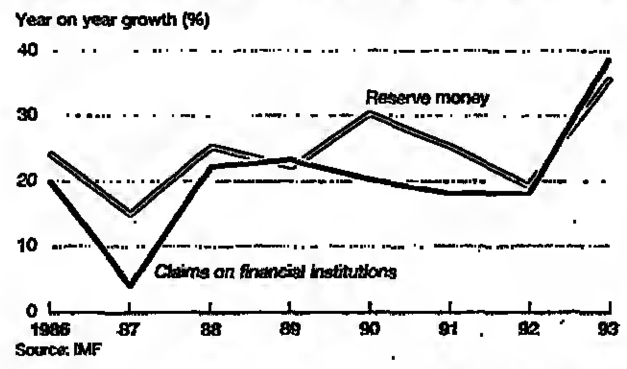
This need to impose credit rationing is increased by the persistent tendency to keep interest rates low. PBC loans are subsidised to different degrees below the base interest rates for bank loans, themselves low. Moreover, rates of interest tend to be furthest below inflation when the latter is high, which is precisely when credit growth needs to be curbed. The consequence is chronic excess demand for credit, exacerbated by the lack of a credible bankruptcy constraint on state enterprises and local government borrowers. It has been estimated that more than half of the PBC's loans are not repaid.

Consolidated deficit
as a % of GDP, 1987-93 average



Source: Ministry of Finance; PBC; IMF; World Bank

Reserve money & PBC claims on financial institutions
Year on year growth (%)



Source: IMF

In 1993, concern about overheating and excessive lending led to centralisation of all authority for PBC lending and allocation of credit quotas in Beijing. In a country as vast as China, however, such centralisation must be temporary. When it is relaxed, so ineluctably is monetary control.

Better monetary control and improved banking supervision depend on making the state banks more autonomous and commercially minded. Similarly, monetary policy will remain a blunt instrument, so long as China's financial markets remain undeveloped. If that is to be allowed to change, however, public finances must improve, which depends, in turn, on the success of current fiscal reforms, on cleaning out the Augean stables of loss-making state enterprises and on disciplining the "investment hunger" of local government.

But before all else, people in authority need to appreciate the inflationary risk of continued monetary financing of the consolidated budget. At present, many policy-makers and analysts are not only insouciant about inflation, but are unwilling to recognise its underlying monetary causes. The hope has to be that they do not end up learning their lesson the hard way.

Taxation is one of the trickiest areas of reform, says **Martin Wolf**

Problem of revenue decline

The reform of China's system of taxation is – says Mr Xiang Huaicheng, recently appointed vice-director of the State Administration of Taxation – among the "riskiest and most difficult" elements of China's reforms. It is also among the most important.

In 1978, budgetary revenues were 34.4 per cent of China's gross national product. By 1993, that had fallen to a mere 15.4 per cent. Meanwhile, the central government's share of total budgetary revenues had fallen from 59 to 41 per cent, while its share of expenditures had fallen only from 46 to 41 per cent. Because of the lack of revenue, the government is forced to rely on the printing press; because of the declining share of the central government, it is also unable to redistribute revenue across China.

Much the most important cause of the declining trend in revenues was a reduction in budgetary contributions from state-owned enterprises, from 20 per cent of gross domestic product in 1978 to a mere 4 per cent in 1992. This accounted for over 80 per cent of the total decline in the share of budgetary revenues in national income.

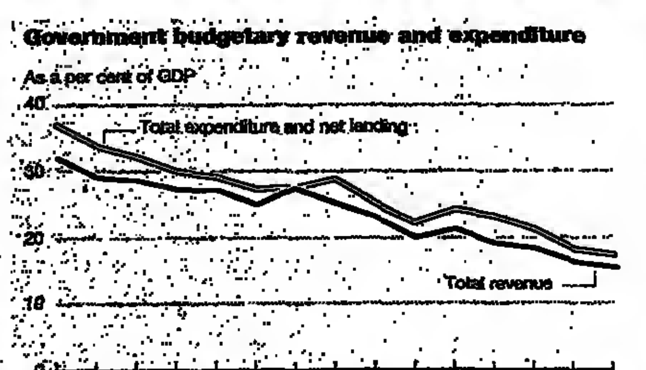
It was the intention of the reforms of the 1980s to leave enterprises with greater control over their resources. Yet this also means that the Chinese people are obtaining almost no return from the investments they have been making in these enterprises. In 1993, for example, 23 per cent of GDP was invested in state enterprises. Huge quantities of scarce resources are being swallowed up, therefore, largely for the benefit of the 18 per cent of the labour force that works within them.

Administrative decentralisation has also played a role. Hitherto, revenue has been raised by locally responsible tax authorities and shared with the centre through a complex contractual system. This has created incentives for local governments to exempt local enterprises, at the expense of the centre.

Meanwhile, local governments have made up the lost revenues through levies that they have not had to share with the centre. Such "fiscal extra-budgetary funds" have grown from 2.6 per cent of GDP in 1978, to 4.2 per cent in 1993, and now account for a quarter of total budgetary resources.

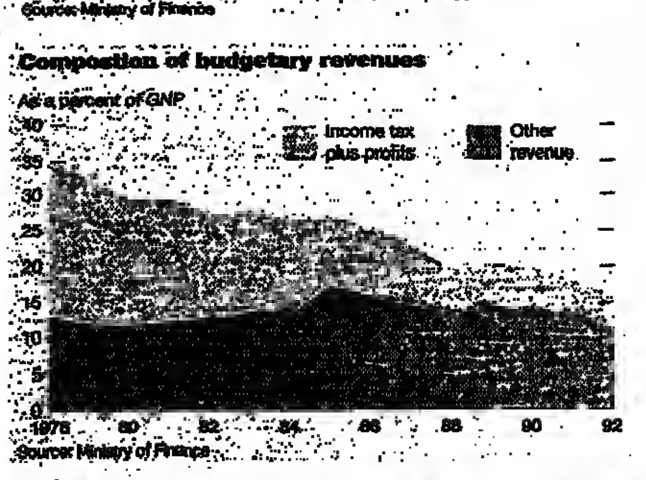
State-owned enterprises are still absorbing huge quantities of scarce resources. Above: a woman welding parts at a Datong locomotive plant

Government budgetary revenue and expenditure
As a per cent of GDP



Source: Ministry of Finance

Composition of budgetary revenues
As a per cent of GNP



Source: Ministry of Finance

The decline of the centre's share in a fiscal revenue whose share in national income is itself declining threatens not just the reform, but even political and economic stability. The answer has been sought in a comprehensive tax reform that was supposed to start at the beginning of 1994, but was, in fact, initiated in July.

The reform programme covers tax structure, tax administration and revenue sharing. The number of taxes is being reduced from 30 to 18, the main features being broadening and restructuring of the value-added tax (VAT), at a rate of 17 per cent on most items, unification and restructuring of the enterprise investment tax (EIT), at a single rate of 33 per cent, and restructuring of the personal income tax. At the same time, the tax service is being re-organised into a National Tax Service (NTS) and a Local Tax Service (LTS). As of July, the NTS is expected to collect all central taxes and shared taxes.

Under the new revenue-sharing arrangement, taxes are assigned either to the centre, to local government, or shared. Of indirect taxes, VAT, the securities trading tax and the resource tax are subject to sharing, while customs duties and the new excise tax are assigned to the central government.

Of direct taxes, revenues from the enterprise income tax on socially owned companies are to go to the level of government that owns them (so continuing the traditional socialist confusion between taxation and dividends). The system has been designed to ensure that no province becomes worse off than in 1993, but will favour the surplus and fast-growing provinces over the deficit and slow-growing ones.

The World Bank estimates that central revenue collection would jump from 27 per cent of total taxes in 1992 to around 80 per cent; the central government's share of the total revenue collected would increase from about about 40 per cent of total revenue in 1992, to 52 per cent by the year 2000; and the net transfer from central to local government would jump from minus 14 per cent of tax collection in 1992 to plus 35 per cent. There should, therefore, be a significant increase in the leverage of the central government over revenue and, thereby, over local government.

One question concerns the new NTS. Mr Xiang recognises the difficulty of seizing effective control over his army of 580,000 tax officials in 4,000 offices. Much greater computerisation is required, with 50 cities to be linked in this way next year.

The shortage of accountants is a concern. Another problem is the low pay of tax inspectors, who earned only about Yn4,400 (US$760) each in 1993, which must encourage corruption. A survey of one city suggested that 13 per cent of revenue was not collected, but Mr Xiang admits this could be a significant under-estimate.

At least two other problems loom. First, that these reforms may not increase overall revenue much, if at all. Additional sources of revenue may soon be needed, the personal income tax being an obvious candidate for attention.

Second and more important, tax reform can, at best, solve only half the fiscal problem. The other half is spending. There the problems of inadequate overall control and unclear assignment of responsibility remain to be solved, even in principle.

The number of bond issuers is set to rise but tight government control on borrowing will be maintained, reports **Conner Middelmann**

Cautious policy on debt

The presence of Chinese borrowers in the international bond markets is set to increase substantially in coming years as the country's massive infrastructure programma raises the need for more foreign investment.

But while the number of Chinese borrowing agencies and the volume of supply are likely to rise markedly, observers say China's conservative foreign debt management will ensure that the market will not get swamped with supply.

"The key feature of China's risk profile is its commitment to keeping debt under control," says Mr Stephen Taran, director for fixed-income research Asia at Lehman Brothers in Hong Kong.

"There should be an increase in the types of issuers, but changes will take place within a framework where the central government retains tight control over borrowing."

Indeed, a finance ministry official recently said that the government would closely monitor borrowing by state agencies and corporations to ensure that China's debt service ratio did not exceed 15 per cent.

Chinese borrowers have something of a stop-and-go track record in the international bond markets. Spearheaded by the Bank of China and the China International Trust & Development Corporation (Citic), the list of borrowers has expanded in recent years to include other banks, regional development corporations and, most importantly, the finance ministry itself which raises funds on behalf of the People's Republic of China (PRC).

Chinese entities borrowed a total of $3.75bn in the year to date, up from $3bn in 1993, $1.4bn in 1992 and $258m in 1991, data compiled by Euromoney Bondware show.

After the resounding success of the PRC's debut in the Dragon bond market in September 1993 with an issue of $300m of 10-year bonds, its fortunes turned with the launch of a $1bn global bond offering in early February. Priced at 85 basis points over Treasuries – even tighter than the 88-basis-point spread on tha Dragon bond – it co-incided with the sharp reversal in the global hull market in bonds, coming only two days before the US Federal Reserve increased interest retes for the first time in the current cycle.

This caused its yield spread to balloon out – some say to as much as 160 basis points over Treasuries – and soured investor sentiment towards Chinese debt, making it more difficult for issuers to tap the markets in ensuing months.

"The pricing on the PRC issue was too tight," says Mr Michael Roche, head of fixed income at HSBC Asset Management in Hongkong. He says he bought PRC bonds at issue, held them during the sell-off and recently sold his position at a small loss.

Chinese borrowers have something of a stop-and-go track record in the international bond markets

Some say investment banks' and reting agencies' eagerness to do business with China has led them to compromise on the quality of that business. "In its quest to become bankers to China, the underwriting community has aimed to please the issuer more than the investors – as reflected in the pricing of the PRC issue," says HSBC's Mr Roche. As far as Chinese issuers are concerned, he adds, "the rose is off the bloom, and we're staying away from them."

This, in addition to worries during the first half of the year over the renewal of China's most favoured nation status, economic prohlems at home and the dire performance of emerging market debt worldwide, pushed yield spreads on Chinese issues out dramatically, causing subsequent fixed-rate issues to be priced at a substantial premium over the underlying market.

A fixed-rate Yankee bond for Citic, issned on October 19, was priced at a spread of 140 basis points over Treasuries. The PRC's glohal bond currently trades at a spread of around 120 basis points over Treasuries.

Much of this year's issuance has also been in Japanese yen, where interest rates have been less volatile than in the dollar hlock, and in floating rate notea, which have made up some 20 per cent of borrowing by Chinese entities this year.

Despite this year's difficulties, China is expected to persevere in its efforts to raise international deht. One of the biggest borrowers in the coming years is likely to be the finance ministry, which plans to raise some $10hn internationally over the next five years.

The finance ministry will prohahly he joined hy three new horrowers, the so-called policy banks which China created this year: the State Development Bank, the Agricultural Development Bank and tha Chins Import and Export Bank. They will gradually take over the country's centrally controllad policy lending, allowing othar banks to sharpen their commercial focus and concentrate on commercial lending. The commercial banks, too, are expected to gain controlled access to the international bond markets.

China's provinces are also expected to become higger players in the international arena. The trend towards political decentralisation has led to a devolution of responsibility for infrastructure funding from the central government to the provinces.

Although their access to overseas markets will remain controlled by the central government, the provinces, through their financing agencies (often referred to as "Itics," such as Shanghai-based Sitic and Guangzhou-hased Gitic) – are likely to increase their bond market profile.

Lastly, corporates who have been raising funds via international equity offerings may also become bond market players. "Partly privatised corporates who hava raised equity abroad will have a higher profile outside China and this may enhance their capacity to borrow internationally," says one syndicate manager.

But will investor demand for Chinese paper rise in line with its supply? Many investors remain daunted hy some of the problems overhanging China, including the overheating economy (11 per cent GDP growth expected this year), galloping inflation (well over 20 per cent), massive government subsidies to loss-making state-owned enterprisea and fears over the succession to paramount leader Deng Xiaoping.

"The market is definitely worried about run-away inflation, political risk and double deficits," says HSBC's Mr Roche, adding: "the economie miracle has turned into an economic mess." In view of this, he feels that, "relative to its sovereign peer group, Chinese debt is overpriced."

However, others say fears of economic and political chaos are overdone – "some people pay too much attention to inflation and not enough to the underlying economic picture." says Lehman's Mr Taran, pointing to China's dynamic export sector which has caused its current account deficit to shrink sharply and underpins the country's deht servicing capacity. Moreover, its high domestic savings rate (some 35 per cent of GDP) supports a high level of domestic investment and means that China does not depend on foreign funds.

On the political front, Mr Taran brushes aside worries over a return to the dark ages of collectivism. "Neo-Maoism is an absurd notion; after 16 years of reform, it would be very difficult for China to go back," he says. He is sanguine as regards the eventual leadership succession: "In my view, the death of Deng Xiaoping will be a non-event from the hond market's perspective; there is hroad consensus among the leadership in China, and the cement of that consensus is the drive towards modernisation."

For now, Hong Kong remains the main international financial centre for the mainland, writes **Louise Lucas**

Hong Kong's role is crucial

Ultimately, bankers and hrokers expect Shanghai to take on the role of China's New York: but for now, the mainland's financial centre is firmly based in the 1,070 sq kms of territory now under British rule.

Hong Kong has long capitalised on its geographical position in terms of China trade, but its role as a money-raising centre has emerged more recently and is reflected in the growing number – and size – of foreign financial institutions setting up shop in the colony.

investment banks such as Goldman Sachs have doubled their Hong Kong head-count in the space of a year (in Goldman's case, to 400 from 200). While beefing up Hong Kong staffing levels is indicative of the lure of Asia in general, the emphasis on the colony over Tokyo or Singapore more particularly underlines the starring role of China.

China's massive spending programmes – snch as a planned US$120hn over the next decade on power and Yn54bn ($6.35bn) this year on building telephone lines – will ensure it is a regular user of the world capital markets. However, its relative inexperience means that – for now – it is highly dependent on overseas markets for experts who can dovetail its needs with those of international investors.

This can be a frustrating role for the colony's bankers – as those working in power project financing could testify. Nearly a year's worth of economically viable power deals have been mothballed becanse investors are demanding higher rates of return than Beijing is willing to concede. However, perseverance is expected to pay off and many are looking for a relaxation from Beijing during the course of next year.

One of the higgest roles in China's cash-raising drive has been played hy the Hong Kong stock exchange, Asia's second biggest stock market and the first overseas bourse to establish the regulatory framework for mainland eompanies to secure an overseas listing directly – that is, without first registering offshore or buying into a shell company to engineer a 'backdoor listing.'

So far, 11 mainland companies have raised a total HK$13.4bn (US$1.7bn) on the Hong Kong stock exchange throngh the creation of H shares; some 15 selected companies are scheduled to follow.

Companies and market capitalisation in HK$m

Company name	Listing date	Issue price in HK dollars	Closing price at Oct 25, 1994 in HK$	Market capit'n Oct 25 1994 in HK$m
Tsingtao Brewery	July 15 1993	2.80	5.60	1,942.36
Shanghai Petrochemical	July 26 1993	1.58	2.50	4,200.00
Beiren Printing Machinery	August 5 1993	2.08	3.525	352.50
Guangzhou Shipyard	August 2 1993	2.08	3.875	608.92
Maanshan Iron & Steel	Nov 3 1993	2.27	2.40	4,159.03
Kunming Machine Tool	Dec 7 1993	1.98	3.20	208.00
Yizheng Chemical Fibre	March 29 1994	2.38	2.925	2,925.00
Tianjin Bohai Chemical	May 17 1994	1.20	1.26	428.40
Dongfang Electrical	June 6 1994	2.83	4.25	722.50
Luoyang Glass	July 8 1994	3.65	4.125	1,031.25
Qingling Motors	August 17 1994	2.07	3.125	3,062.50

Source: FT statistics, Hong Kong

The role of conduit between Chinese issuer and international investor was conceived in early 1992, soon after Mr Charles Lee – who retired last month – took up the chairmanship. H sbares, former mainland state-owned enterprises listing in the colony, were effectively borne out of the conclusion that growth potential must lie beyond Hong Kong – a conclusion many of the exchange's members were also discovering.

The fruits of lengthy negotiations between regulatory authorities in Hong Kong and China – with the former seeking to ensure issuers complied with international standards – was a joint Memorandum of Understanding and the hugely successful listing of Tsingtao Brewery, the company responsible for China's best known beer, in July of last year: the HK$889m issue was 110 times oversubscribed. Tsingtao was one of an initial list of nine state-owned companies selected for an overseas listing, all of which are now trading in Hong Kong. A second list of 22 companies followed in January, of which around 17 will have their primary listing in Hong Kong, and the expectation is for still bigger lists in subsequent years.

Some 15 months on, sentiment has waned heavily: a reflection of concerns over China's overheating economy and the impending demise of paramount leader and architect of China'e capitalist drive, Deng Xiaoping, allied with more widespread fears, such as rising interest rates, which are hurting markets worldwide.

Price earnings multiples have fallen sharply: from almost 18 in the case of Tsingtao to just nine in the case of Qingling Motors, the light duty truck maker which raisad a total HK$1.04bn in August.

The stock exchange, however, is not allowing the vacillations of sentiment to undermine its position as tha premier exchange for the issuance and trading of China securities. In August, Hang Seng Index Services, which is responsihle for the colony's blue chip index of the same name, launched an H share index as a specific barometer for the mainland companies, raising their profile and providing an investment benchmark. In its latest hlueprint for the future, *The Way Forward*, the stock exchange shows its hand will remain stacked in favour of China: "Most participants with whom the exchange met stressed that the single most important issue facing the exchange was how it could best serve China's capital formation needs. It was felt that serving these needs represented the exchange's best opportunity of long term future growth."

The exchange is now considering the introduction of a more active debt market, in part to carve a further niche in enahling China incorporated institutions to raise capital through bond issues in Hong Kong. While China bonds have been arranged by Hong Kong bankers – especially where distribntion is aimed at the South East Asian market (the so-called dragon bond market) the bigger global issues tend to have been handled further afield.

However, both the government and private sectors remain alert to the fact Hong Kong cannot take for granted its role as China's premier capital raising market.

Soma believe that Hong Kong's spiralling costs and deteriorating skills, especially in English and Putonghua, the main spoken language of China, could erode this role.

Mr David Li, a member of Hong Kong's Legislative Council and chief executive of Bank of East Asia, the third biggest listed bank in the colony, recently warned of another, altogether closer, rival:

"Within China itself, Shanghai is aiming to become the leading financial centre. There is talk that Shanghai may replace Hong Kong. It can sometimes be easier to recruit talented employees in China than it is in Hong Kong.

"The possibility that Shanghai could replace Hong Kong is at the heart of the challenges we face. Because many of our strengths can be reproduced, or even transferred, the possihility of tomorrow's Shanghai is sobering. It suggests that we could lose the race for greater competitiveness."

Chinese stocks on Wall Street still lack appeal

US reception remains cool

American consumer goods from burgers to fizzy drinks may be all the rage in China, but not all things Chinese can be assured an equally warm reception in US markets, as company and regulatory officials have learnt to their cost this year.

US shareholders have hroadly cold-shouldered mainland stock trading on Wall Street and the so-called N share.

The N share is s recently introdnced category of security offered to investors in the US, Europe and Asia, and its reception has prompted the Chinese regulatory authorities to look instead at facilitating dual primary listings – as achieved hy Shanghai Petrochemical and its sponsors Merrill Lynch Hong Kong and Peregrine Capital last year.

This would enable companies to widen their investor base with a US listing, while at the same time recognising that the bulk of demand, for now, will be in Hong Kong.

In 1993, the first year of overseas listings, all nine selected companies headed across the border for Hong Kong. This year, however, the Chinese authorities elected to send five of the 22-strong second batch to New York.

For the companies conceroed, this was initially seen as good news: compared with Hong Kong, price/earnings ratios tend to be higher and there is a perceived prestige premium attached to a US listing.

Until the introduction of N shares, which began with Shandong Huaneng, a power company, four mainland companies were listed on the New York Stock Exchange: Brilliance China, China Tire, Ek Chor Motorcycle and Shanghai Petrochemical. in October, Huaneng Power, an associate company, became the sixth US listed mainland company.

Trading in Shanghai Petrochemical, one of the first batch of N shares, demonstrates the relative inactivity of China shares in the US *vis à vis* Hong Kong, where most activity takes place. Around four times the volume of Shanghai Petrochemical shares are traded in Hong Kong as in New York, although 70 per cent of the stock was first issued in the US.

Bankers attribute this to Hong Kong's greater awareness of – and familiarity with – the China market, as well as an its enhanced level of news about the country, plus research coverage.

Most recently, the lacklustre American appetite for Chinese shares has been highlighted hy the decision hy Shandong International Power Development (SIPD) to delay its listing while it monitors the performance of shares in the two power companies which recently hit Wall Street.

SIPD last month called a halt on its HK$2.7hn listing in the colony, and planned issue of American Depositary Receipts (ADRs), in response to the US performance of Shandong Huaneng and Huaneng Power international.

Poor performances wrought by market conditions have been exacerbated in the Chinese power sector by a dearth of desperately-needed foreign funds for development.

Shandong Huaneng has seen the price of its ADRs slump about 23 per cent from the issue price of US$14.25 on August 4 to about US$11.25.

Huaneng Power International has also seen its share price fall on Wall Street since its October 6 debut, despite cutting the share price 27 per cent to US$20 from US$27.50, the top price mooted in the preliminary listing prospectus.

In response to this, regulatory authorities are seeking to eliminate the barriers to dual primary listings.

If measures can be developed in time, it is possible two of China's biggest overseas listings now earmarked for New York may be able to dovetail with a Hong Kong offering. These are the two airline companies: China Southern Airlines, being brought to market by Goldman Sachs; and China Eastern Airways, arranged hy Morgan Stanley.

The challenge has been swiftly picked up by the Hong Kong stock exchange and the Securities and Futures Commission (SFC), the colony'a securities watchdog.

The colony'a regulators ara eager to enhance Hong Kong's international reputation and obtain the extra business generated by offering a secondary market in New York listed China companies.

However, facilitating dual primary listings means overcoming mechanical problems such as those which arise, for example, because of the different subscription systems used in the US and Hong Kong.

Issues to be resolved include who has jurisdiction in a simultaneous US-Hong Kong listing; prospectus differences – in the US an initial "red herring" document is printed without prices while, in Hong Kong, prices are typically ineluded. Another issue is the underwriters' role in price stabilisation, following a new listing.

Louise Lucas

Overseas interest in Citic joint venture

Continued from page 6

men from Singapore and Hong Kong have indicated a willingness to invest in the island. In Angust, a large mission from Japan, consisting of banking and industrial executives, visited the island. Mr Wei says Citic has signed its first business contract with an industrial company in the chemicals industry.

Telecommunications is also a sector where Citic sees growth. AsiaSat 2, a telecommunications and entertainment eatellite, is dne for launch in 1995. Citic has a third of the project.

"We are trying to get Chinese television networks to make use of the satellite," he says.

He hopes that Central TV, the main government-owned national broadcaster, will rent a transponder. AsiaSat 2 will employ "Kn band" transponders which are more powerful than the previous generation of transmitters. This means that households need only own a small receiving dish – which Citic has the capacity to mannfacture in Beijing, Xian, and elsewhere.

"There are so many isolated and mountainous regions in China," he explains. "The peasants have the money [to buy a dish]; the economy in many rural areas is catching up. They need a communication channel that is clear and stable."

Citic may have been mainland China's first experiment with capitalism but its pursuit of profit has been tempered recently by the government's request that it take over and manage two ailing state companies – a civilian truck and auto parts eomplex in Shaanxi, and a heavy machinery manufacturer in Luoyang.

The re-organisation of the Shaanxi factories – 10 in all – is still not complete. Citic has pumped about Yn50m into the complex over the past four years; seven factories have returned to health – "the other three need money," says Mr Wei. "Bnt Citic is not going to put any more money in, the other seven can."

Although he is not best pleased with the Shaanxi complex, he recognises that there was a social need for Citic to help.

"They have more than 10,000 workers and their families, so 40-50,000 depend on the factory," he says.

The rehabilitation of most of the Shaanxi factories has enabled the creation of Citie Antomohile, a snhsidiary which brings together Citic anto assets under one umbrella.

The requirements of the Lnoyang acqnisition were managerial not monetary. The factory, now known as Citic Heavy Machinery Company, is China's higgest producer of heavy cranes, diggers, and dock loading equipment.

The factory was basically profitable, hut the plant was under-ntilised and the company focused too mnch on domestic sales to the exclusion of export possibilities.

"The company was owned praviously by the mining industry, but it did not order very much equipmant," he says. "It was a hig factory with a small sales staff and no one to look after the overseas market. We have helped them to export."

Still, one gets the impression that Mr Wei does not see Citic's involvement in "pastoral care" for ailing state industries as central to the conglomerate's mission.

In answer to another question abont finance for state companies, he says: "We do lend to state enterprise – carefully, very carefully."

SHANGHAI STOCK MARKET

Focus on the short-term

When stockbrokers start blaming their clients, it is a clear sign that it is not going to be a good year. So, if the complaints to be heard in Shanghai these days are an indication, 1994 is shaping up as a very poor year indeed, *writes Simon Holberton.*

"Investment strategy is very short term," says Mr Huang Jun, head of institutional sales, at Shanghai International Securities (SIS). "There is n lack of knowledge about fundamental analysis. Investors look at financial statements but lack the expertise to interpret them."

"The investment situatioo is not ideal," agrees Mr Huang Guexian, a senior director of Shenyin Securities, a large Shanghai brokerage. "There are many individual investors and few institutions. The individuals are mostly investors who lack long-term iotentions."

The cry of short-termism is often heard in Shanghai. Only recently the Liberation Daily, the Communist party's mouthpiece in the city, upbraided investors for being far too prepared to trade on rumour. "Some illegal institutions and big shots are coining rumours to force investors to sell at a loss. At other times they conjure up non-existent news to attract followers," the paper said last month.

The Shanghai market has performed like a yo-yo so far this year. Share prices in Shanghai had been on a steady decline until the end of July, when the A-share index hit an all-time low of 328.9. A-shares can be owned only by Chinese nationals, while foreigners have a limited access to Chinese stocks through B-shares.

To cries of "Do something!" from brokers and investors alike, the China Securities Regulation Commission (CSRC) announced a series of measures to support the market.

These measures included a re-iteration of the ban on new A-share issues for 1994; a promise to control more rigorously A-share issues in 1995; an undertaking to permit Sino-foreign joint venture investment funds to invest in A-shares; and the extension of selective credit lines to securities companies to help fund their trading.

The announcement of these measures had the immediate effect of boosting prices. By the eod of August the A-share index was about to break through the 1,000 point barrier – more than three times its level of not quite two months before.

Since then, however, the market has beeo buffeted, mainly by rumours concerning the health of Deng Xiaoping, China's 90-year-old senior leader. By the middle of last month the index was hovering around 650 – 35 per cent off its peak for the year.

In addition to complaints about rumours, the failure to follow through the July measures has disappointed brokers. Mr Huang dismissed the moratorium on new A-share listings as "nothing new."

For foreign investment bankers the gyrations of the Shanghai market are those expected of a market in the early years of development. They are more intent on building their offices for the day – not too far off – when foreigners will be able to trade A-shares.

They are also looking forward to the time when the Chinese corporate sector becomes more attuned to western corporate finance techniques of capital-raising, and mergers and acquisitions.

For Mr Richard Graham, chief representative of Baring, the UK investment bank, in Shanghai, corporate research, carried out by properly-trained local staff is the place to start.

"You have to create your research team on the ground. China is no different," he says. "Hong Kong and Taiwanese analysts are not well-suited to looking at Chinese companies. They don't understand the culture. They come in wearing flashy clothes, speaking bad and aggressive Mandarin – it doesn't go down very well with hassled local executives."

The prospect of a unified stock market, where the distinction between A and B shares is removed, will be good for the foreign investor, Mr John Crossman, general manager of Jardine Fleming in Shanghai believes. Capitalisation of the A-share market in Shanghai is more than four times that of the B-share market.

In oorporate finance Mr Crossman notes that China's preference for equity rather than debt means there are opportunities for bringing together foreign equity and technology in strategic alliances. "We're seeing where we can expand," he says.

Baring's Mr Graham also sees this as fertile ground. "The real question for investment banks bere is the future of mergers and acquisition work," he notes. "You won't get Chinese companies to pay for that sort of advice at the moment, but foreign companies might."

This time last year China's securities market regulators and participants were looking forward with confidence to the nation's first securities law, a law that would bring market supervision, licensing and regulation under one authority.

Today, summing up the situation, one regulator described his position as "dismayed and ineffective." China's attempts to emulate the West in devising a regulatory framework for its rapidly growing securities markets appear to have fallen foul of bureaucratic politics in Beijing.

The problems whicb policymakers in Beijing have met in producing a unified securities law are emblematic of decision-making in modern China. To some observers the process is an andless series of behind-the-scenes horse trading as interest groups in the hureaucracy jockey for preferment and position. The outcome is often a second-best solution to the problem.

The local and foreign stock broking community in Shanghai – the financial centre on the mainland of China – is almost completely agreed on the oeed for a coberent set of rules, administered by a single institution, by which to operate. Mr Huang Guexian, a director of Shenyin Securities, the biggest broker in Shanghai, says the securities industry in China is in urgent need of an all-eocompassiog securities law.

"If companies from other provinces want to list bere we can only regulate them using Shangbai regulatioos," be says.

"We are in urgent need of such a law. The market also wants a unified power. If every province goes its own way, you get a contradiction in regulation. You can set up a branch of the regulator in Shanghai who represents the power."

Shangbai's small but growing group of western investmeot bankers share Mr Huang's views. Mr John Crossman, general manager or Jardine Fleming in Shanghai, says that wbat the market has hoped and argued for is a regulator in Beijing based on the model of the Securities and

Local and foreign stockbrokers want one authority to admininster a single set of rules, says **Simon Holberton**

Disputes delay securities law

Exchange Commission (SEC) in the US – "we've been telling them: 'Give us an SEC, tell us what the ground rules are and enforce them for all.'

"I suspect we are oot going to see a securities law for some time," he adds.

Not all, however, agree that changes to the proposed law will be bad. Mr Huang Jun, head of institutional sales at Shanghai International Securities, says: "You just can't put a US system here. tt needs substantial changes. The delay in the securities law is to make tbe law more aceeptable to local conditions."

The failure by Beijing to produce a securities law – it was

A bruising contest between big institutions has hindered progress

due out this summer – appears to be the result of bruising contest between the China Securities Regulatory Commission (CSRC) and a number of powerful institutions, such as the People's Bank and the Ministry of Finance, which are loath to yield power to the CSRC, an institution less than two years old.

The battlefield for this contest has been in the standing committee of the National People's Congress – China's parliameot – in whose name national laws are promulgated. The participants have been the economic and finance sub-committee of the NPC – with support from the CSRC's – and the legal work committee. Botb committees produced conflicting versions of a securities law and have been unable to reconcile those differences.

The exact details of where the two proposed bills disagree is not known. A key difference is believed to be the authority conferred upoo the CSRC. Under the ecooomic and finance committee's law the commission was to be the sole regulator. The draft prepared by the legal work committee is believed to have left the issue of which institution has regulatory power vague.

"The legal work committee wants to leave it fuzzy," says one knowledgeable observer. "So regulatory power will be divided betweeo tbe State Council, Ministry of Finance, the ceotral bank, CSRC... everyone.

"They said they didn't want to make it clear because no-one wants to make it clear."

Observers in Shanghai also say that the delay in the publication of the law reflects a certain besitancy by the authorities. Western brokers say that it has beeo difficult for the Chinese authorities to come to grips with wbat a securities market is and how it can work for the benefit of China.

"They are trying to regulate what should happeo, rather than describe a framework in which a market can work," one broker observes.

"I think they have become confused and don't know what to do witb the securities law; they don't want to make a mistake."

Mr Richard Graham, chief representative of Baring, the UK investment bank, detects a change in policy that appears to be political – "there was a definite change from the Party Congress [in 1992] to this year's National People's Congress typified by the change in language from 'reform' to 'stability'," be observes.

This, he claims, led to a change in the central banking law, which drew back from allowing banks the freedom to set interest rates and reserved that power for the People's Bank. The securities law is a victim of the same thinking.

"The law was going to confirm the CSRC as the regulator of the securities industry but the People's Bank put its foot down; it wants to control the listing of companies and the supervision of the stock exchanges," he said.

Tbe bureaucratic infighting about the securities law has raised fears that it may end up witb similar deficiencies to those from which China's newly promulgated company law suffers.

The company law came into effect on July 1 and is ambiguous as to tbe precedence of oational over provincial law, especially in the area of securities. This leaves vague tbe position of Shanghai and Sbenzhen regulations in relation to the national law.

Moreover, the law lacks adequate provisions for the overseas listing of mainland companies; it fails to specify the maximum proportion of a company wbicb any individual may own (as did previous regulations); or, what constitutes a quorum at an annual general meeting of a company. In short it is weak in adequately defining ownership.

In the particularly harsh judgmeot of one local observer, the company law as drafted is "incongruent with the principle and practice of company law."

In the view of the Hongkong and Shanghai Bank, "the transitioo from the old to the oew system eovisaged under the company law will certainly be marked by confusion and may take years to accomplish."

The oew securities law may not have been able to rectify the errors in the company law – some of whieb will be the subject of 21 supplemeotary regulations currently being drafted – bot officials and investment bankers had hoped the law would have coherence. It is not now clear if those hopes are well-founded.

■ MARKET REVIVAL MEASURES IN CHINA

Rowing the boat out

■ 1993:

October 13:
The Shenzhen Stock Exchange (SZE) announced that the minimum time allowed between buying and selling B-shares would be reduced from three days to one day, as of 18 October, in order to stimulate market activity. Reportedly, from November 1, the Shanghai Stock Exchange (SHE) would allow investors to see B-shares on the same day they bought them.

■ 1994:

February 22:
The SZE announced that new listings of A-shares on the SZE would be suspended until further notice. The suspension was lifted on April 6, apparently because the measure failed to help revive the market.

March 12:
Securities Supervisory Committee chairman Liu Hongru announced four measures, effective immediately, to revive the market:
☐ The issue of Rmb 5.5bn-worth of new shares planned for 1994 would be postponed until the second half of this year or early next year.
☐ No stock transaction tax would be levied for 1994 or 1995.
☐ State and legal person shares would not be listed on either stock exchange, and would not be merged with individual shares this year.
☐ Rights issues by listed companies would be strictly controlled.

April 7, 25:
Both the SZE and SHE reportedly set a target of US$100m for this year's new B-share issues, the same as in 1993, in order to restore market confidence.

May 13:
The State Council Securities Committee announced that, with immediate effect, all companies preparing for listing on the SZE or SHE had to undergo six months' coaching by the relevant department before being listed. This was to enable companies to set up a system comparable to a share-holding company. The introduction of the new rule effectively postponed all new A-share listings planned for 1994 until next year.

July 28:
☐ No more A-share issues in 1994.
☐ A-share issues in 1995 to be controlled tightly.
☐ New rules on placements.
☐ Domestic mutual funds to be encouraged.
☐ Sino-foreign investment trusts to be allowed.
☐ Credit to be made easier for securities companies.

Simon Holberton

New business clubs prove popular

Business club elitism seems to be an idea that goes down well in nominally socialist China where access and contacts are the keys to success, *writes a correspondent in Beijing.*

Twenty business, private and country clubs are either open or in the works in Beijing, all of them vying to raise membership among foreign executives, Chinese tycoons and even government officers forced by official rules to enrol under the name of their wives or relatives.

The Chinese press estimates that 60 business and golf clubs are under construction across the country.

New clubs market their prestige and facilities fiercely, advertising in print and on the radio, offering such incentives as free trips and pitching enrolment in limited memberships as an investment that will pay off handsomely in the future.

"I am besieged with calls from these clubs, I refuse to speak to them any more," says an executive with an American bank.

Perched on the 50tb floor of Capital Mansion near a north Beijing diplomatic enclave, the Capital Club is the latest entry, boasting a panoramic view of the smoggy Chinese capital and a board of governors that is a mini Who's Who of Beijing government and business.

A joint veoture betweeo the China International Trust and Investment Corporatioo (Citic) and the Club Corporation of America, the club will sooo fill its 400 capacity membership roll. In addition to a wood-panelled corporate ambience and dining areas designed like boardrooms, tbe club also has a recreatioo ceotre witb a glass-domed swimming pool, bowling lanes, billiard tables and a golf simulator.

Tbe membersbip fees of $7,500 for corporations and $5,000 for individuals include access to 200 associated private and country clubs in 14 countries.

"We are trying to provide better opportunities for eacb member to do business and for foreign and Chinese businessmen to exchange views," says Robert Dedman, chairman of Club Corp. of America, operator of two other clubs in the southern Chinese cities of Zhuhai and Zhaoqing.

Other facilities in Shanghai and Guangzhou are planned. In December, the Changan Club – entrance fees are $28,000 for corporations and $20,000 for individuals – with private tennis courts, saunas, gymnasiums and dining rooms, will opeo not far from the walled citadel of China's Communist leadership, Zhongnanhai. The club is a venture between the Beijing Sports Commission and Fu Wah International Enterprises of Hong Kong.

Some business sceptics question whether the plethora of planned private clubs will attract the gilded ranks of China's new millionaires – "Beijing citizens still don't understand tbe concept of the business club.

"It's the same old problem here: the old culture could go oo for another 25 years," comments one club manager.

Key facts on China

Population and main cities

China's main cities include Shanghai (population 13.4m); the capital, Beijing (formerly Peking, 10.9m), Tianjin (9.1), Shenyang (4.5m), Wuhan (3.7m), Guangzhou (Canton, 3.5m). Office rent and occupation costs have been rising sharply in Beijing and Shanghai (see chart, right, also Shanghai report, page five). Other main cities with populations of well over 2m are Harbin, Xian, Nanjing, Chongqing, Dalian, Jinan, Changchun and Qingdao. China's estimated population is 1,185,170,000 – nearly a quarter of the world's total population.

Ethnic groups

The number and percentages of main ethic groups include Han (Chinese), 1.042bn (91.96%); Zhuang, 15.4m (1.37%); Manchu, 9.8m (0.87%); Hui 8.6m (0.76%); 7.3m (0.65%); Uygur, 7.2m (0.64%); Yi, 6.5m (0.58%); Tujia 5.7m (0.50%); Mongolian 4.8m (0.42%); Tibetan, 4.5m (0.41%).

Race and language

The population of China is primarily of Mongoloid descent. About 93 per cent is Han, the remainder consisting of 56 groups known as the minority nationalities. Four major language families are found in China, the most important being the Sino-Tibetan, spoken by the Han Chinese.

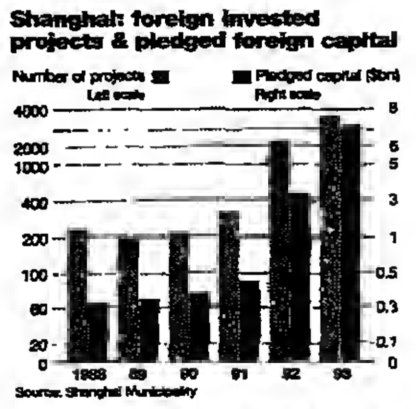
Currency

The yuan/renminbi is illegal tender for payment of hotel, travel and other services by foreigners travelling in China. The current exchange rate (November, 1994) is approximately Yn8.5 to US $1. Foreign currency must be declared on entry.

Visas

Visas are essential for visitors to China. Regulations regarding visas have been in a state of flux: it is now possible to

Shanghai: foreign invested projects & pledged foreign capital



Source: Shanghai Municipality

present oneself at any large Chinese point of entry and be given a two-week visa on the spot. Visas are also issued by the Hongkong office China Travel Service at 77 Queen's Road, Central, Hongkong, or at 27-33 Nathan Rd, Kowloon and at the People's Republic of China Visa Office, Chine Resources Building, 26 Harbour Rd, Wanchai, Hongkong. Application can be made by mail or in person.

Travel agencies arranging China tours, especially in Hongkong, will frequently obtain a visa on your behalf.

Changes in itinerary after arrival may require approval. For travel to all but 257 specified destinations, travel permits are also required.

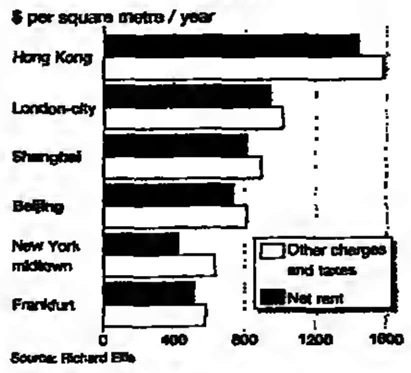
Ministries in Beijing

Government ministries include:

Ministry of Agriculture: Fuxing Lu, B 15, Beijing 100862; tel. (1) 8512594; telex 22349; fax (1) 8515048.
Ministry of Chemical Industry: Liupukang, Andingmenwai, Beijing; tel. (1) 446561; fax (1) 4215982.
Ministry of Civil Affairs: 9 Xihuangchenggennan Jie, Xicheng Qu. Beijing; tel. (1) 551731.
Ministry of Coal Industry: Beijing.
Ministry of Commerce: 45 Fuxingmennei Dajie, Xicharg Qu, Beijing 100801; tel. (1) 668581; telex 20032.
Ministry of Communications: 10 Fuxing Lu, Haidian Qu, Beijing; tel. (1) 8642371; telex 22462.
Ministry of Construction: Baiwanzhuang, Westam Suburb, Beijing; tel. (1) 8642371; telex 22462.
Ministry of Culture: Jia 83, Donganmen Bei Jie, Beijing; tel (1) 442131.

Office rents compared

$ per square metre / year



Source: Richard Ellis

Ministry of Finance: 3 Nansanxiang, Sanlihe, Xicheng Qu, Beijing; tel. (1) 868731; telex 222308.
Ministry of Foreign Affairs: 225 Chaoyangmennei Dajie, Dongsi, Beijing. tel (1) 553831.
Ministry of Foreign Trade and Economic Co-operation: 2 Dongchangan Jie, Dongcheng Qu, Beijing 100731; tel. (1) 553031; telex 22168.
Ministry of Forestry: 18 Hepingli Donglie, Dongcheng Qu, Beijing; tel. (1) 463061; telex 22237.
Ministry of Geology and Mineral Resources: 64 Funei Dajie, Beijing 100812; tel. (1) 6031144; telex 22531.
Ministry of Internal Trade: 25 Yuetanbei Jie, Xigheng Qu, Beijing.
Ministry of Justice: 11 Xiaguangli, Sanyuanqiao, Chaoyang Qu, Beijing; tel. (1) 668971.
Ministry of Labour: 12 Hepinglizhong Jie, Dongcheng Qu, Beijing.
Ministry of Machine-Building Industry: Sanlihe, Xicheng Qu, Beijing.
Ministry of Metallurgical Industry: 46 Dongsixi Dajia, Beijing; tel. (1) 557431.
Ministry of National Defence: Beijing; tel. (1) 667343
Ministry of Personnel: 12 Hepinglizhong Jie. Beijing.
Ministry of Posts and Telecommunications: 13 Xichangan Jia, Beijing 100804; tel. (1) 660540; telex 222187.
Ministry of Power Industry: 1 Baiguang Lu, Ertiao, Xuanwu Qu, Beijing.
Ministry of Public Health: 44 Houhaibeiyan, Xicheng Qu, Beijing 100725; tel. (1) 4034433; telex 22193.

Continued on next page

Stop me and buy one: western-style ice cream for sale on the Great Wall of China – see Unilever report, page 6

Voices for reform versus the traditional party line

Cultural élite are ready for change

Since the mid-1980s, Hong Kong and Taiwan have become the real cultural trend-setters on the Chinese mainland, writes **Geremie Barmé**

In China, packaging is averything. Even cultural dissidents have learnt that with the correct marketing ploys, being on the fringe does not mean you are on the "outside."

While Labour activists and human rights campaignars – especially those in the provinces who have never enjoyed the international media limelight in Beijing or Shanghai – are regularly harassed and jailed, the more colourful and controversial rowdies enjoy an enthralling, symbiotic relationship with the authorities.

Take, for example, the case of *China Through the Third Eye*, the puhlishing *cause celebre* of recent months. Highly critical of the conditions of "primitive capitalism" that many of the Communist Party'a economic reforms have inculcated in China, including social inequities and rampant corruption, the book gained a wide readership over the summer. An official ban was issued and the hlack-market value of the voluma soared.

The author of the book had given volce to a number of "conservative" opinions (this depends on your reading of the Chinase political spactrum which can mean anti-reform, pro-state authority, or leftist deviationist), and it was touted as being the incisive work of a German scholar.

Yet no such scholar can be found: it turned out that for maximum publicity-valne, the publisher and the real author, a man who goes under the name Wang Shan, had created the foreign persona.

In the days when Party censorship was at its height, such a book would not have hit the streets. Today, as in the case of so many works (like Jia Pingwa's best-selling 1993 pornographic pulp novel *The Necropolis*), puhlishers produce and sell a book before the authorities bother imposing a ban.

Subsequantly, copies are withdrawn and a suitahle fine – in some instances, negotiated – is then imposad. In the meantime, everyone has been ahle to read the offending volume and dividends are shared all around. Such a state of affairs begs some questions: Is this ironical censorship, a state where everything banned has after-the-fact quotation marks around it? Is China the first post-modarn totalltarian nation? Or is it that the commissars' hearts are just not in their work any more?

Meanwhile, mainstream official culture still churns out its usual product-line of atodgy propaganda pieces gussied-up in the tawdry drag of Hong Kong and Taiwan pop culture. There are endless 'soap operas' about Party officials and the good fight, the regulation number of politically-correct war movies and tear-jerkers, plus reams of printed propaganda fulfilling state quotas at every level.

But atrapped hy limited funds and suffering from a serious image problem, the cultural authorities – a nation-wide network of bureaucracies covering every aspect of cultural activity and life in the country – have been in retreat for some years. The impact of more ideologically steadfast elements is summed up in the common Beijing saying that "their rule doesn't extend beyond the Third Ring Road (of Beijing)," since all they control is a couple of journals and newapapers, and they only have the support of a handful of officials.

The real mainstream these days is the sensational tahloid press. More than 2,000 newspapers are now registered for puhlication, many of which have appeared in the last two years. Scandal, murder and mayhem are the stuff of popular entertainment.

Starved of such pap on television – unless they have a satellite dish, or *wok* as dishes are called in Chinese – to receive StarTV or MTV, the masses turn to movies (mostly pirated offshore videos); pulp fiction (Mills and Boon has recently fixed a gimlet eye on the Chinese mainland market); and saccharine Canto-pop from Hong Kong and Talwan.

Since the mid-1980s, Hong Kong and Taiwan have become the cultural trend-setters on the mainland. They are modern, their communications more developed and their conaumer cultures more sophisticated than those of the more stodgy and out-of-touch capital, Beijing, in the north.

Even the "underground" – non-official musicians, artists, film-makers, writers and thinkers – have increasingly surfaced to sign contracts with Hong Kong and Taiwan outlets.

Younger cultural figures have noted the success of the leading film-makers Zhang Yimou and Chen Kaige, and even their own fringe colleagues such as the middle-aged poet Mang Ke, a founding editor of the non-official 1970s journal *Today*, whose novel *Unruly Acts*, a fictional account of his early literary career, was published earlier this year.

They see the possibilities of using China as a backdrop for artistic endeavours that are aimed at an elite Western or middle-class Asian audience, and the exigencies of exploiting China's reputation as a repressive totalitarian state for the marketing of their work.

Like their Hong Kong and Taiwan compatriots this group remains at the forefront of a process of "Othering the Motherland," a process of exploiting the mystique of socialist China.

They still get banned and harassed, but those who have made a name for themselves are fêted internationally.

It should be pointed out, however, that there are still many cultural taboos. While gay themes have been exploited more readily, cross-undressing is a no-no. In mid-June, the transgressive cross-dressing performance artist Ma Liuming of Beijing stripped himself naked in his courtyard house in front of an audience of nine. He then proceeded to cook a large pot of sweet potatoes garnished with an earring and a watch. This stew was then ceremoniously interred. The *coup de grace* came when police detained the performer, his assistant and the entire audience.

Ma may have fallen into a little bother, but his stunt has set him on the path to protective renown. His "work" is featured in a new snazzy non-official art journal that appeared in Beijing in September. It is run by editors who commute hetween the Chinese capital and New York.

☐ *The writer, Geremie Barmé, is co-author of "New Ghosts, Old Dreams: Chinese Rebel Voices"*

DOING BUSINESS IN CHINA

Patience is paramount

Doing husiness in China today is dramatically different from ten years ago.

As China continues its dizzying rush toward modernization, many of the rules have changed. Into this fluid and chaotic situation pour senior executives from countries all over the world. In an atmosphere reminiscent of a gold rush, China has become an intensely competitive free-for-all in which foreign companies are figbting for market share, skilled personnel and office space.

"Everyona is focusing on China – companies see it as having a buge market potential," sald Phil Carmichael, president of the American Chamber of Commerce in Beijing. "Everyone's competitor is focusing on China and they are willing to undercut each other. Your real market competitors are the foreign manufacturers your company faces elsewhere."

Companies seeking to do business in this environment will find that in many ways conditions have improved dramatically.

One result of the China boom has been a striking improvement in the logistics of doing business, with better infrastructure, easier access to faxes, copiers and international phone calls, and greater availability of taxis and minibuses. Moreover, after a decade and half of exposure to the outside world, the Chinese are much more open to dealing with foreigners and there is a greater effort to make public rules and regulations.

In another significant change, managers in state-run factories have more power to make their own decisions and even own a stake of the equity. The work force is more mobile and foreign companies are ahle to hire well-qualified local staff of their choosing.

For all of the changes, though, certain fundamentals of doing business with the Chinese hava not changed. For newcomers, good advice is to look outside the main cities of Beijing and Shanghai to see the real chaotic China where basic infrastructure lags well behind its economic development and aspirations.

"If you only go to Beijing and Shanghai and zoom around in taxis, you'll get a distorted picture," says Anne Stevenson-Yang, chief representative of the US-China Business Council. Experienced China traders also say that having patience is still an ahsolute necessity. Under tremendous pressure to produce results because of the high cost of being in the country, foreign husinessmen often cannot move slowly enough to adapt to the market.

"China moves incredihly slowly," says Steve Crandall, president of Crandall Ford International, a dealership representing the American auto giant in Tianjin. "A standard US$500,000 negotiation here *takes seven 12-hour days.*"

Negotiations about pnrchases of imported products will often start with what would be considered a given in western countries. For example, car sales discussions involve such basics as whether a motor would be included in the price.

In addition, the approval process for using foreign exchange to buy imported products can take a year or longer as it goes through the bureaucracy.

"If a person comes in today, he or she won't see results for 12 to 15 months," says AmCham's president Phil Carmichael. "If your company has put up one to one to $1.5m up front and doesn't get an immediate return, that doesn't mean your rep is not going a good job. He could be sowing seeds for your company the following year."

Looking for a compatible partnar is one of the most challenging assignments and one that often goes easily wrong. Businessmen stressed the importance of not entering into a deal with the first individual claiming to have special contacts.

"A lot of companies are sent off on the wrong track because they know one American or overseas Chinese who claims to have good connections with hureaucracy," says Stevenson-Yang. "Even if he has good connections in one ministry, this could become a liahility if you 'tie your horse to only one wagon.'"

Researching the background of potential partners is vital to avoiding problems later. Many sources of information are available, including embassy commarcial aections, other companies in similar industries, consultants, and even reports from ministriea that rank domestic companies' performances.

Another common pitfall is racing to sign a letter of intent without investigating other options. Although these documents are not legally binding, the Chinese present them internally as proposals for joint ventures. The Chinese would rather negotiate with foreigners than tell their own officials to give up a point.

"Be careful what you sign," a western attorney warns. "It may look innocent enough, but it may come back to bite you."

Investors should carefully weigh the benefits of establishing a wholly-owned enterprise or a joint venture. While joint vantures may be a auitable option, even witb a large equity stake, they are often an uneasy marriage, with problems arising over profit distribution, management, and the number of workers.

Partners need not always be in the same industry as the foreign company as long as both parties have a common vision. Baskin Robbin's, an American ice cream maker, relies on its sales agent, a subaidiary of tbe military-run Great Wall Company which is involved in satellite launches, for its knowledge of how to work tbe bureaucracy in order to hring its American-made ice cream through customs.

A tight property market has made office premises and residential accommodation in Beijing almost as expensive as those in Hong Kong. Thers are long waiting liats for every first class building in the capital, but a downturn is expected in mid-1996 as more commercial space becomes available.

Until then, tha best practice is to remain flexibla, sign only short term leases and look for creative alternatives, such as renting space from a customer.

Witb executives working long hours and travelling on the road mnch of the time, China is not an easy place for an unoccupied spouse.

Spouses with Chinese language skills have a reasonable chance of finding a job with a joint venture company or one of the many western companies doing business here.

But for those who do not, taking crash courses in Chinese can help with basic communication. Other options can include pursuing a particular interest, or, for a fluent English speaker in today's climate, marketing that ability to land a joh as an English teacher or polisher.

Lynne Curry

Key facts

Continued from previous page:

Ministry of Public Security: 14 Dongchangan Jie, Beijing; tel (1) 553871.
Ministry of Radio, Film and Television: Fu Xing Men Wai Dajie 2, POB 4501, Beijing; tel. (1) 862753; telex 22236; fax (1) 8012174.
Ministry of Railways: 10 Fuxing Lu, Haidian Qu, Beijing; tel. (1) 864061; telex 22483.
Ministry of State Security: 14 Dongchangan Jie, Beijing; tel. (1) 553871.
Ministry of Supervision: 35 Huayuanbei Lu, Haidian Qu, Beijing 100083; tel. (1) 2016113.
Ministry of Water Resources: 1 Baiguang Lu, Ertiao, Xuanwu Qu, Beijing 100761; tel. (1) 3260495; telex 22466; fax (1) 3260365.

Public holidays, 1995

These include January 1, (Solar New Year); January 30 – February 2 (Lunar New Year); March 8 (Women's Day); May 1 (Labour Day); August 1 (Army Day); September 9 (Teachers' Day); October 1, 2 (National Days).

Climate

Continental, with extremes of temperature; sub-tropical in the south-east. In Shanghai, the hottest months are July and August, ranging from 23-32 degrees C; coldest month, January, 1-8 degrees. In the north there are extremes of temperature, ranging from -15 degrees (January) to 40 degrees C (July-August). The northern cities, including Beijing, experience cold winters.

Time zones

Zone 1 (Urumqi), six hours ahead of GMT, zones II, III and IV (Chongqing, Lanzhou, Beijing, Shanghai, Harbin) eight hours ahead of GMT, nine hours ahead of GMT during Beijing summer time, mid-April to mid-October.

Working hours

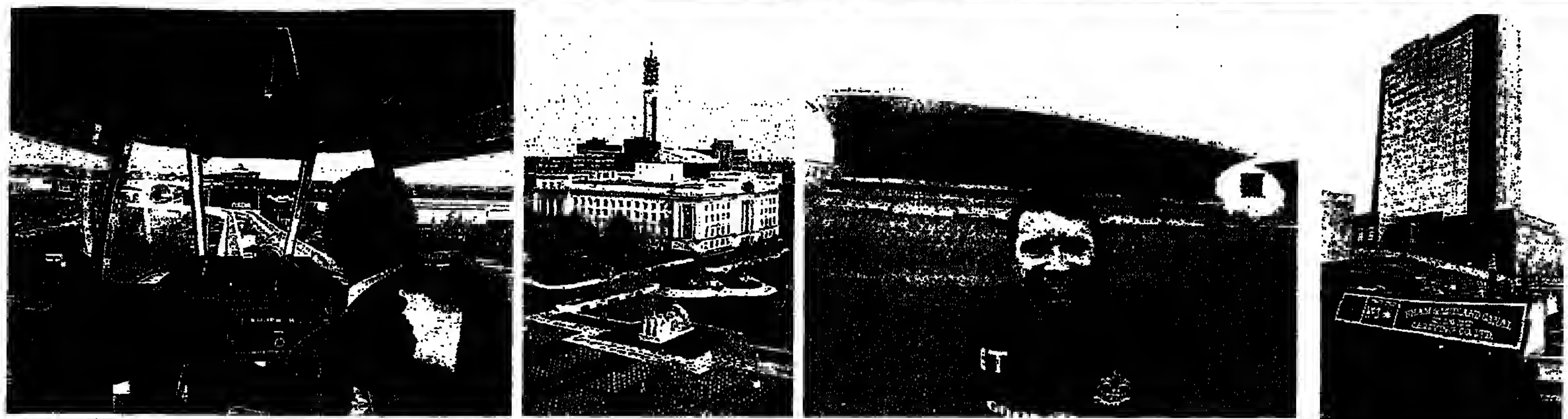
The usual business hours for government offices are 8am to noon, and 2 pm to 6 pm, Monday to Saturday, though appointments are usually not mada on either Friday or Saturday afternoons. Sunday is a holiday.
The Bank of China in Beijing is open for money exchange from 9 am to noon and from 1.30 pm to 4.30 pm, Monday to Friday; 9 am to noon on Saturday.

☐ *Details compiled by Peter Cheek, FT Library and Statistics Department*

FINANCIAL TIMES SURVEY

BIRMINGHAM AND THE WEST MIDLANDS

Monday November 7 1994



Region on the move (left to right): A monorail at Merry Hill shopping centre, Brierley Hill, links four stops in the complex; the name of the statue in Birmingham's Centenary Square is 'Forward'; Graham Taylor is leading the revival at Wolverhampton Wanderers FC; the Hyatt Regency hotel towers above Birmingham's Gas Street basin – the canal network is being cleaned up as part of a plan to renew the city centre *Pictures: Trevor Humphries*

Carmakers are still the magnet

■ Three factors lie behind the automotive sector's continuing importance to inward investors.
See Page 3 of this survey.

ALSO

Manufacturers matter again

The region is moving smoothly out of recession – and traditional industries are leading the way, writes **Paul Cheeseright**

When delegates to the annual conference of the Confederation of British Industry approach the International Convention Centre in Birmingham this morning, they will see the evidence of a publicly-funded exercise in economic diversification.

The centre, along with the National Exhibition Centre and the nearby National Indoor Arena, represent an attempt by civic leaders to demonstrate that there is more to Birmingham than its traditional position as the UK's industrial heartland.

Yet it is the traditional industries – the engineering and automotive companies – that have led the West Midlands out of recession.

Surveys from regional chambers of commerce have reported a steady rise in the proportion of manufacturing companies with fatter export order-books. Service companies, on the other hand, saw the growth in export orders flatten out in the middle of the year. For both manufacturing and services, the flow of domestic orders slowed in the second and third quarters.

Apart from exceptions such as companies tied to the aerospace and construction sectors, there has been a rise in ouput. But there is scope for more. "One of the concerns is whether the chancellor of the exchequer is trying to slow down growth because of capacity constraints, but nobody I've talked to has got capacity constraints," said Mr David Probert, chairman of W. Canning, the chemicals company and president of the Birmingham Chamber of Commerce.

Notwithstanding such reservations, the region is moving out of recession with relative smoothness, and economic forecasters agree that, in the short and medium term at least, growth is likely to be at or near the national average. Oxford Economic Forecasting and Northern Ireland Economic Research Centre, for example, estimate that gross domestic product across the West Midlands will expand in 1995 by 3.4 per cent, compared with 3.5 per cent for the UK.

The longer-term future is more difficult to predict, and the question of finding the economic balance between manufacturing and services remains.

Manufacturing is the mainstay of regional wealth but not the source of jobs: indeed, Ereaco, tha European research organisation, forecasts a 6.7 per cent fall in the region's manufacturing amployment every year until 1997.

Although output from the services sector in Birmingham, the regional centre, is forecast by the Birmingham Economic Information Centre to grow 4.1 per cent a year until 1997 and 3.9 per cent a year until the year 2005, job expansion over the same periods is predicted at 1.78 per cent and 1.38 per cent respectively.

The services sector – through the development of, for example, the complex that houses the National Exhibition Centre, the International Convention Cantre and the National Indoor Arena and its associated business tourism; the Merry Hill shopping centre; and back office facilities in Coventry – has created an impetus of its own since the early 1980s. Both financial and business services have expanded.

But none of this has been sufficient to remove manufacturing from its pivotal position in the regional economy. What was deemed a weakness in the 1980s, when fashionable thinking downplayed manufacturing as a source of growth and looked to services as the basis of expansion in an advanced economy, is now deemed a strength.

"No advanced economy has survived without a manufacturing base," said Mr David Ritchie, regional director for the Government office of the West Midlands. "If this country is going to become competitive in any realistic sense in the future, it has to have a manufacturing base." The UK government is so keen to advance manufacturing that it is planning a celebration of industrial achievement in the West Midlands next year.

For manufacturing in Britain to prosper, Birmingham and the West Midlands must thrive. Figures from the 1991 census of production showed that, in terms of gross value added during the manufacturing process, Birmingham was by far the strongest centre in the UK. Coventry was third; Sandwell, in the Black Country, was fifth, Stoke-on-Trent 11th and Wolverhampton 14th.

In any event, the futures of the manufacturing and services sectors in the region cannot be disentangled. A report for the CBI, from Coopers & Lybrand, accountants, noted that 40 per cent of jobs for men and 16 per cent of jobs for women were directly dependent on manufacturing, with much of the service industry base directly dependent on supporting manufacturing activity.

The difficulty is that the manufacturing sector, after the retrenchment set off by the 1980s recession and the rationalisation caused by the 1990s recession, is too small for comfort, suggested Mr David Botterill, chief executive of the Engineering Employers Federation West Midlands.

"What is there is infinitely healthier. It's much stronger, more alive and more internationally competitive. It's made considerable inroads into European markets," he said.

Sharp cost differentials have emerged between UK engineering companies and their continental European competitors. They have enhanced the ability of West Midlands engineering companies to supply components to, for example, German car manufacturers. "To penetrate French and German markets it used to be virtually essential to have a plant there. Now they are prepared to buy from outside," said Mr Probert.

At the same time, the existeoce of the cost differentials has helped speed the flow of inward investment into the region, taking the sums committed back to pre-recession levels. "The 45 investments from European companies represented the largest source of inward investment into the region," reported the West Midlands Development Agency.

In common with other regions, there has also been over the past year an increase in mergers, acquisitions and management buy-outs. Demand for capital to expand still lags behind 1980s levels, however, according to 3i, the venture capital group.

Over the longer term, tha region needs sustained investment, directed not only at the creation and expansion of companies and the introduction of new products, but also at the development of a better infrastructure.

Disparate organisations are combining to seek UK and European funding, and to devise new partnerships between the public and private sectors, to work on a lengthy list of improvements, such as new roads in the Black Country and east Birmingham, a light rapid transport system to join Birmingham and Wolverhampton, and expansion of the airport.

The second essential requirement is to raise the level of education and skills in the regional workforce. According to government analysis, the West Midlands has the poorest qualified labour force in Great Britain: in spring 1993 nearly three in 10 workers had no qualification.

Because the lowest levels of attainment are in the cities, and frequently in the inner areas where there is a high proportion of ethnic minorities, the social implications are profound. There is already a growing proportion of people in the inner city areas who, because they lack skills, are permanently outside the jobs market.

During the next decade, said Mr Bruce Epps, director of strategic management at Birmingham City Council, "we have got to get around the fact that a lot of the jobs in tha city are filled by people from outside."

It is a reminder that the gloss of the city centre, with the bustle of the International Convention Centre, is a world away from the tower blocks which look down on it.

Exports are leading the region out of recession, says **Tom Lynch**

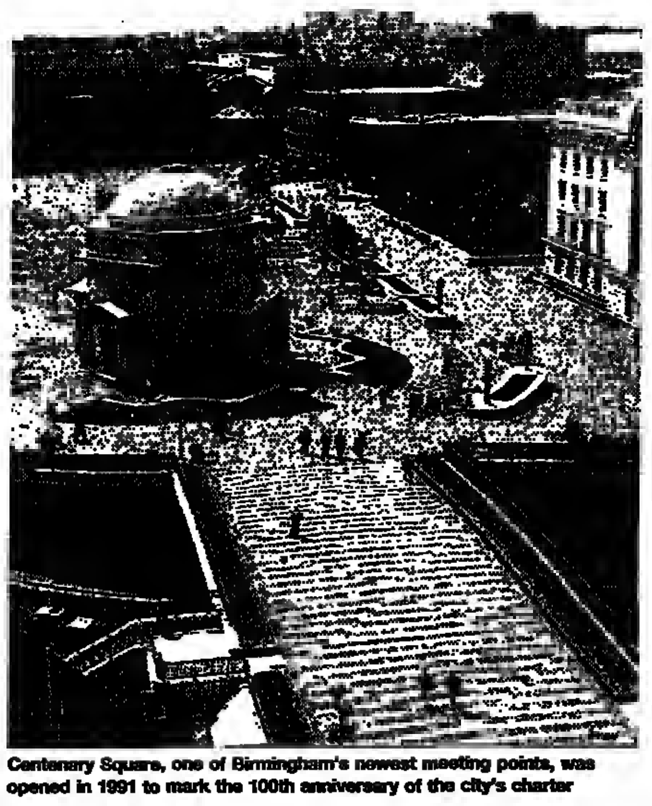
Services provide the jobs

As the UK pulls haltingly out of recession, there is more confidence around in the West Midlands, which, as home to a large concentration of manufacturing industry, is particularly encouraged by the strength of exports.

In the last few years, unemploymant has fallen more quickly than in the UK as a whole because of inward investment, which to some extent dilnted the region's dependence on a small group of large producers. The region also boasts highly competitive wage rates, and the differential with the rest of the UK is growing.

But tha optimism is tempered by concern about thet continuing dependence on manufacturing. It has exaggerated the impact of the last two recessions in the region, with unemployment rising more sharply at the start of each, and recovering more quickly at the end than in the UK as a whole.

Research shows the region is perceived as desirable, and above the UK average, as a business location



Centenary Square, one of Birmingham's newest meeting points, was opened in 1991 to mark the 100th anniversary of the city's charter

Mr David Ritchie, regional director for the Government Office of the West Midlands, insists that manufacturing has to be underpinned: "No advanced economy has survived without a manufacturing base. If this country is going to become competitive, it has to have a manufacturing base."

Birmingham alone still has 128,000 people working in manufacturing, in spite of diversification.

There have been huge improvements in competitiveness among the region's larger companies, such as the big vehicle asssmblers – which represent 30 per cent of the region's GDP, against 8.5 per cent for the UK as a whole. But there is still a long way to go among the small and medium companies – the foundry industry is seen as a sector where improvement is particularly needed.

The close ties of much of the region's economy to the motor industry promise a challenge to tha region in ths longer term, with increasing competition from the Far East and from other parts of Europe.

As Mr Martin Booth, chief economist at the West Midlands Enterprise Board, points out, manufacturers are always going to look at where they can get the best deal in assembling new models.

The UK has done well in this respect, aided by the low level of the sterling exchange rate and the competitive work practices stimulated by Japanese transplants.

But, says Mr Booth, as eastern Europe develops, countries such as Hungary and Poland could compete for new car plants.

And since the sale of Rover Group to BMW of Germany, there is no large UK-controlled car maker, and all strategic decisions are taken outside the UK.

Current growth is also benefiting the components sector, with the big assemblers working increasingly closely with first-tier suppliers.

The relationship, dependent on quality and price, is based on component prices continuing to fall, which is less easy to achieve if volumes stop growing.

Mr Chris Tillett, a principal with accountants Coopers & Lybrand in Birmingham, says that West Midlands industry is more vulnerable than the rest of the UK to the effects of increased competition within the European single market, revisions to Gatt and to changes in the distribution system.

As an example, he cites the increasing internationalisation of retailing, with companies such as household products group, Ikea, able to supply its growing market share in ceramic products – an important industry around Stoke-on-Trent – from a range of international suppliers. West Midlands companies, which tend to be small, are less well placed to compete in international markets.

Some of the forecasts are anormonsly depressing. Ereaco, the European research organisation, says employment in manufacturing will drop by 6.4 per cent a year until 1997 in the West Midlands.

But research also shows the region doing well in services and with a location quotient – a measure of how desirable it is perceived to be as a business location – above the UK average.

There is also a growing pocket of alectronics companies around Telford; and Wolverhampton and parts of Birmingham are competitive in what thay can provide in regional assistance.

Most commentators expect any employment growth to come in services such as retailing, and that therefore the region's economy will become more dependent on lowar-waged and part-time jobs.

A recent report from the Birmingham Economic Information Centre – run by the city council and the training and enterprise council – said starkly: "Relatively high levels of unemployment, leading to serious social and economic deprivation in some parts of the city, are likely to persist for many years to come. These problems represent s further constraint on local economic growth as they depress levels of consumer spending power."

There may be less help available from diversification which, says Mr Booth, was helped in the 1980s by service companies moving out of London – for instance, the TSB head office move to Birmingham and Barclays Bank's back-office functions to Coventry. The property and labour cost pressure for such moves has now eased.

Mr Booth also points to the region's shortage of greenfield sites – he doubted whether any site available in the West Midlands could have taken the Toyota plant which went to Burnaston in Derbyshire. A number of "brownfield" sites are being reclaimed, but some investors, notably those from the US, are wary of sites whichthey fear could bring nasty surprises.

The region also has a poor recent record in new company formation. The number of VAT-registered businesses in the UK rose 33 per cent between 1979 and 1990 – the figure for the region was 24 per cent and for Birmingham just 9 per cent.

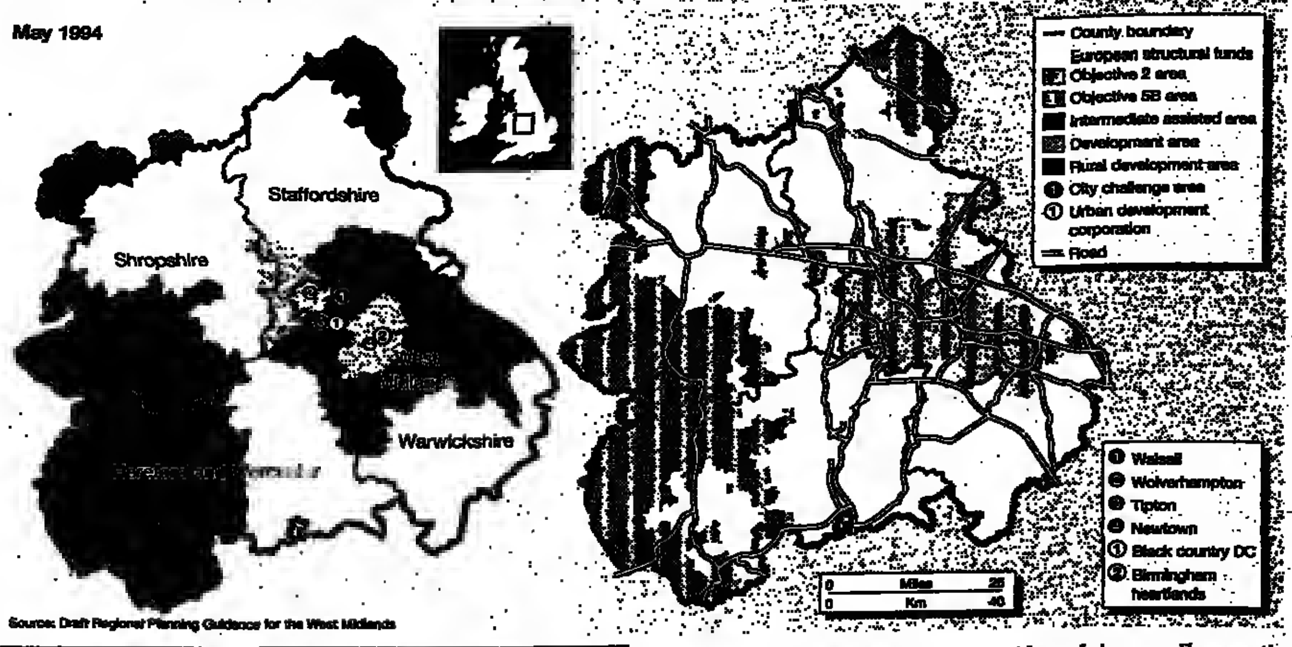
There are bright spots in the region. Coventry, says Mr Tillett, is "holding its own," as is Solihull; while Warwickshire is forecast to have one of the fastest growth rates in the UK over the next few years.

Also doing well are the smaller centres to the south and west of Birmingham – Redditch, Kidderminster, Worcester, Telford. Like Birmingham, Stoke is struggling and Burton has suffered from a shakeout in the brewing and food industries.

The region faces considerable challenges in its drive towards urban renewal. New manufacturing needs to be attracted, local companies need to gear up to win contracts from the inward investors who are setting up plants in the region and, perhaps most importantly, local industry must invest and develop to meet the increasing competitive pressures from elsewhere.

West Midlands: economic areas

May 1994



Source: Draft Regional Planning Guidance for the West Midlands

Percentage change in employment: 1981-1992

	Birmingham	W Midlands Region	Great Britain
Manufacturing	-43.5%	-31%	-22.1%
Services	6.2%	15.1%	13.1%
Self-employment	37.5%	39.4%	34.6%
Total	-11.2%	-0.7%	5.0%

Sources: 1981, Census of Employment; 1992, Employment Gazette & BBC estimates

Regeneration needs public funding

Grants are the remedy for region's needs

Seen from Brussels, the West Midlands is one of the poorer regions of the European Union. Viewed from Whitehall, its gross domestic product falls below the UK average, and its inner cities register some of the worst poverty in the country.

These are uncomfortable facts that detract from the messages put out by the promoters that the region is the manufacturing heart of Britain, which has attracted substantial inward investment and whose principal city, Birmingham, sells itself as the meeting place of Europe.

Both claims can be substantiated. Yet to assume that all of the region is rundown and its people poor would be erroneous. It is increasingly urban – or rather, suburban – with pockets of wealth in those parts of the shire counties that are within commuting distance of the conurbation.

On the other hand, tha extremities of these counties (except Warwickshire) have recently been designated by the European Commission as rural areas in need of development (Objective 5b).

Coming back into the centre, the unemployment blight in Birmingham and Wolverhampton was acknowledged by the government, which gave them development-area status.

What all this will add up to in terms of regeneration and the region's economy will depend largely on the response of the private sector.

The Department of Trade and Industry is encouraged that grant approvals are running at a higher level than last year (136, against 91). Grant money adds up to £21.3m so far in 1994-5, compared with £14.1m for the same period of 1993-4. Recovery in the manufacturing sector explains some of the increase in demand. The new development-area status also seems particularly to have caught the eye of Birmingham business.

Jaguar Cars easily tops the list for the size of grant approved in the region. The two plants – Castle Bromwich in Birmingham, and Browns Lane in Coventry – will share £9.4m towards upgrading facilities to produce the X100. The fact that the Birmingham plant could qualify for the higher rate of assistance helped to win the project for Britain against international competition, and to secure it in the West Midlands against Ford (Jaguar's owner) plants in other parts of the country, according to the DTI. The grant was approved because it would safeguard jobs rather than create new ones.

Regeneration of the old industrial and inner-city areas is also closely linked to the response of the private sector – developers, manufacturers and service producers. Most of the government's programmes have been brought under the umbrella of the Single Regeneration Budget (SRB) since the start of the current financial year. The whole region, however, is eligible to apply. Bids submitted this autumn are now being assessed. If all of the bids were successful, some £40m would be paid out. Considering that the total SRB for England is £100m, there will have to be some scaling-down of expectations.

As government spending gets tighter, Brussels is the real honey-pot for the region's needs. Much of the older, urban section of the region has been retained as eligible for European Regional Development Fund support (Objective 2). (Telford and Stoke-on-Trent were not deemed to be in need any longer). The three-year allocation, to December 1996, for these areas is £287m. Redundant coalfield areas scattered around the region have also qualified for European money, to assist development and training.

The European Commission's aim is to help the poorer regions of the EU to come closer to the average regional profile. So it wanted a plan not just for bits and pieces of the West Midlands, but for the region overall. In the absence of any regional government institutions such as exist in Germany, France and Italy, the West Midlands Regional Forum of Local Authorities pulled together the plethora of ideas and programmes into a coherent overview of the region's needs until the end of the decade.

The progress of the current Brussels round marks the end of the so-called integrated operations programmes, which tended to favour industrial cities and sub-regions. Birmingham, which did well from the structural funds to support its city-centre renewal programme, expects to find it tougher in the current session.

Consequently the government's City Pride exercise, which Birmingham, Manchester and London are competing for, is all the more important. It is not clear, however, whether Whitehall intends to fund City Pride from the Single Regeneration Budget, in which case these cities could lose other funding.

European money has to be matched by funds from other sources. With local government capital spending severely constrained, Brussels increasingly supports projects where the other part of the funds come from urban development corporations, such as City Challenge. The aim of these bodies is to maximise the Euro-content by putting together schemes which incorporate support from the European Social Fund – for training largely – and other European sources.

Brussels' support for alternative economic development in the more marginal rural areas – in the West Midlands totals £32m, which puts it among the most successful bids in the more developed members of the EU, and is substantially complemented by the government's rural development area programme. Money can also be applied for to help add value to agricultural products. The Brussels pot might yield a little extra for the inner cities, and the region is also pushing to be included on the list of areas whose rail networks might qualify for extra help.

Hazel Duffy

Metropolitan authorities – Revenue Support Grant (£m)

	1990-91	1991-92	1992-93	1993-94	1994-95
Birmingham	394.4	424.8	555.5	544.9	538.8
Coventry	84.8	82.1	127.4	123.4	123.7
Dudley	42.2	39.7	81.6	77.5	87.9
Sandwell	84.8	84.7	128.9	127.4	129.2
Solihull	31.3	27.4	55.8	45.4	48.0
Walsall	64.6	59.0	94.9	96.5	110.9
Wolverhampton	82.9	87.6	122.9	121.7	114.4
West Midlands Police Authority	-	-	-	68.0	76.4
West Midlands Fire and CD Authority	-	-	-	35.6	36.2
Total	785.1	805.4	1,166.9	1,240.6	1,285.5

Source: Government Office, West Midlands

Partnerships are not new. **Hazel Duffy** examines their evolution

The community has its say

Partnerships are on the increase, spurred by a government that has made them a pre-requisite in the competitive bidding process for regeneration money.

There is nothing new about the concept. In the 1970s, the partnership was between central and local government, the former channelling money through local authorities to be spent on physical renewal.

During the 1980s, the word was applied by Mrs Thatcher to a relationship between the public and private sectors. A further dimension was added as a result of the corporate sector's involvement with voluntary agencies and schools – for instance, to bring extra resources to areas of economic and social deprivation.

The 1990s has seen the birth of the training and enterprise councils (Tecs), requiring yet another sort of partnership between central government, which finances most of their activities, and local companies. And with the City Challenge programme, whereby local authorities co-ordinated a number of agencies to put a bid for money to government, the community became formally involved.

The community is now represented on many of the 37 partnerships across the West Midlands region, which are waiting to hear if they have been successful in capturing a slice of the Single Regeneration Budget. These partnerships are variously led and co-ordinated by local councils, voluntary agencies, higher education, and Tecs.

Some partnerships have economic stimulus as their objective. Coventry city council, for instance, has teamed up with surrounding local authorities to form an embryo "city region", bringing more potential development sites into the catchment area than could be produced in the city itself.

It is hoped that this approach will bring increased opportunities to seek money from Europe, as well as from the government through such agencies as English Partnerships, which will be responsible for City Grant and money to restore derelict land. Coventry also hopes that the private sector, with seven seats on the board of the partnership company, will be encouraged to bring forward investment plans.

The private sector is in a leading position on partnerships in several other areas, including Stoke-on-Trent, Newcastle-under-Lyme, Burton and Cannock, which have put in bids to the government.

The role which corporate leaders – many of whom are already involved in Tecs – and other partners will take in the implementation of some of the schemes emerging from successful bids is less clear. Even where schemes have a specific economic, rather than social, goal, the local authority is likely to emerge as the partner that ensures things get done.

Some partnerships will be adaptable, while others might not survive beyond the immediate purpose for which many were set up

Chief executives sometimes fulfil a largely symbolic role, yet they are easier to bring into the partnership circle than representatives of the community, says Steve Martin, research fellow in the local government centre at Warwick Business School Centre. Moreover, community representatives often do not represent all parts of the community, and some use it as a platform which could get them out of the area.

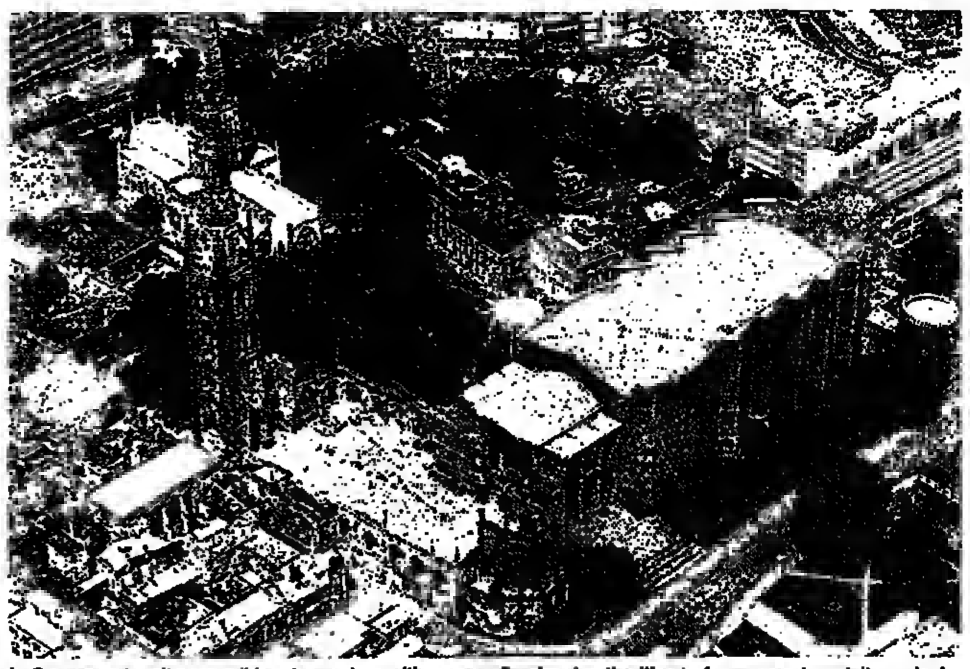
"What is important in all partnerships is that each partner brings something distinctive into it. In that way, they can avoid clashes over turf," says Mr Martin.

Current government thinking is that publicly funded schemes should demonstrate that they will benefit the community. The four City Challenges in the region – in Walsall, Wolverhampton, Tipton and Birmingham – all want to get property development schemes off the ground, whether they centre on a supermarket, a science park, housing or a combination of all three. This brings the potential developer into the partnership as well. But it has to be demonstrated that these plans will include extra activities, such as training and childcare, so that local people have a chance to get work.

The short-term nature of government programmes set up to address long-term problems of unemployment and social deprivation points to the need to identify the people – the partners – who will take on the mantle after the agencies are wound up.

The two urban development corporations in the area, Black Country and Birmingham Heartlands, are already preparing for their demise. They have taken on some responsibility for other publicly funded schemes that no longer exist, like the government's task force in East Birmingham. But they have only short lives ahead of them, so must foster arrangements for the future.

Some partnerships will be adaptable, others might not survive beyond the immediate purpose for which many were set up. Local government has been pushed into the partnership mode by the very fact that it does not have the resources these days to strike out on its own. But councils across the region will probably prove to be the mainstay of many of these partnerships, because they are still better geared up to make things happen at the local level. They are also the only democratically elected element in partnerships.


In Coventry, the city council has teamed up with surrounding local authorities to form an embryo 'city region'

Birmingham, in particular, has had much experience with partnerships. Some councillors would like the Heartlands area to return to the sort of development agency partnership between private contractors and the city council which existed before the government turned it into a development corporation. But it would have to be adapted for the mid-1990s, which would suggest more partners than originally.

The chamber of commerce has played an important role in city partnerships with an economic slant, and, with the Tec and the council, initiated one of the first Business Links in the country.

Local government is having to be adaptable in working with others, in order to satisfy the European structural funds' masters, who want the emphasis to be on the region and sub-regions rather than individual councils.

Partnership similarly requires a degree of agility if it is to make a real impact. The more partners there are, the greater the skill that is needed to reconcile what is attainable with over-ambitious goals.

Inward investment: **Paul Cheeseright** traces its growing importance

Carmakers are the magnet

Foreign investment in the West Midlands is increasing after three years of decline. Probably it now accounts for 20 per cent of the UK total, restoring the region to the position it occupied in the late 1980s as the English area most favoured by overseas companies.

Figures assembled by the West Midlands Development Agency (WMDA), the focus of regional activity in attracting new investment, show that, in the year to last April, foreign investment reached £652.72m, excluding the £800m takeover of Rover, the vehicle manufacturer, by BMW of Germany.

But of the 83 projects involved, 47, with a value of £309.39m, covered expansion by foreign-owned companies already established in the regions. The other projects were 19 acquisitions, worth £316.1m, 14 new investments valued at £22.59m and three joint ventures.

"This year the number of projects is slightly down but capital expenditure is ahead of the 1993-94 total," reported Mr Paul Richards, the WMDA's chief executive.

The high proportion of spending on company expansions underlines the significance of foreign investment for the region.

Since 1988 foreign investment in the West Midlands has topped £2.5bn, creating 22,000 jobs. Indeed, it is estimated that foreign-owned companies now account for about 20 per cent of regional output.

"Unemployment in the second half of the 1980s came down faster in the West Midlands than in the UK as a whole, because of inward investment," said Mr Chris Tillett, of Coopers & Lybrand, accountants, in Birmingham.

Further, regional surveys showed that, during the recession, overseas companies were more inclined than indigenous companies to follow through their investment plans. Arguably, then, they softened the impact of recession.

The greater part of the investment is coming from traditional areas. Last year European companies were involved in 54 per cent of the projects and North American companies 39 per cent. The pace of Japanese investment has slowed, while the expected growthin interest from companies in Korea and Taiwan has not materialised.

Although the sectoral spread of investment remains wide, ranging from electronics to food processing, the automotive sector holds predominant importance. Three factors are at work here.

First, the expansion of car assembly in the UK is drawing in suppliers wishing to be closer to their customers. Second, overseas companies are using the West Midlands, a vehicle manufacturing area, as a platform from which to enter the wider European Union market. Third, cost patterns have been shifting within the European auto industry.

"Not only is the UK cheap, but the West Midlands is even cheaper," noted Mr Tillett.

The US department of labour calculated that average total labour costs per hour in the UK are $11, against $15 in the US, $16 in France and $22 in Germany. Coopers & Lybrand noted that average gross male earnings in the West Midlands are 92 per cent of the UK average. It assessed that operating costs of a typical Coventry plant would be less than two thirds those of a German plant.

Since 1988 foreign investment in the West Midlands has topped £2.5bn, creating 22,000 jobs

The drive against inflated costs has induced German car manufacturers like Mercedes Benz and Volkswagen to widen the geographical sourcing of their components. At the same time, the level of West Midlands costs has made it feasible for their traditional suppliers to consider setting up operations in the region.

Yet there is no guarantee that the stronger flow of inward investment will continue. Costs are only one factor in an increasingly competitive race to secure new employment. This is a race which sets country against country, region against region, and even within a region, district against district.

The latest figures from the WMDA are the first since the government revised the boundaries on its map of assisted areas and the European Commission defined the areas which it considered qualified for aid. This has meant that Telford, a focus for investment since the mid-1980s, and a number of other locations, no longer have the opportunity to offer subsidies to incoming companies at the level of past years.

This has made little difference so far. The easy access to greenfield sites and the comfort to be derived by incoming companies from the presence of their peers has led to what Mr David Rogerson, director of the Telford Development Agency, described as "the highest level of inquiries during the last few months we've ever had".

In the first half of this year, seven foreign companies established themselves in Telford, compared with 11 in the whole of 1993 and nine in the whole of 1992.

Yet 60 per cent of the jobs created or safeguarded by foreign investment in the West Midlands were in the Birmingham-Black Country conurbation during the year to last April.

The competitive attractions within the region may be changing. Land assembly programmes of government agencies are coming to fruition. They have led, for example, to the Black Country Development Corporation's planned automotive components park and the Birmingham Heartlands Development Corporation's proposal for a new business park on land purchased from Leyland Daf Vans. Space is becoming available in the conurbation where there was none before.

This is good news for the WMDA, because it widens the range of site possibilities it can offer to potential investors. Inward investment agencies are searching for new services which can be provided for incoming companies, not only to help them but to link them in to the local network of suppliers.

"Inward investment used to be about a piece of land. Now it's much more a company saying, 'What resources have you got to support my business?'" said Mr Richards. Meeting this sort of demand, acknowledging that sustaining companies which have already set up can be just as significant as drawing in new arrivals, is likely to change the WMDA.

New forms of collaboration between local agencies in the West Midlands, partly in response to the growing role of training and enterprise councils, should diminish the reliance of the WMDA on the department of trade and industry, its prime source of funding, and the local authorities.

Birmingham University has floated the idea of a Birmingham Investment Fund. It would seek to attract long-term capital so that it could support the science and technology from which will come the next generation of industrial products.

Coventry University is planning an innovation centre which would enable graduates from its product-oriented courses to start up and run new companies which would capitalise on the ideas they have themselves developed.

These two examples illustrate universities' increasing search for ways in which they can help to foster regional economic growth.

Industry and the universities: **Paul Cheeseright** looks at the nexus

Academia spurs innovation

The intellectual activities of universities can be a source of industrial innovation. The problem is how to strengthen the link between academia and industry. And, given the high importance of manufacturing in the regional economy, the way this problem is handled is critical for the West Midlands.

"If you don't innovate, you're dead," said Mr David Storey, head of the centre for small and medium-sized enterprises at Warwick Business School.

In the six months to laet April, according to the West Midlands Business Survey, 13 per cent of companies introduced new products to the market, compared with 4 per cent in 1991-92.

"If we don't make value-added prodncts, we won't reverse decline," warned Mr Bob Bushaway, director of researcb support and industrial liaison at Birmingham University.

There have always been ties between commerce and the institutions: in many cases, the one provided the funds for the formation of the other. But now the mutual dependence is increasingly recognised, as companies understand the store of expertise locked in the universities and the universities are required increasingly to act like businesses.

For the universities, there are hard financial reasons for re-examining ties with industry. "The Higher Education Funding Council notice that we're going to have a 14 per cent fall in funding concentrated minds," said Mr Charles Leonard, head of commercial development at Coventry University. "The only way to improve the situation is to deal more effectively with the funds yon've got, or to generate more. All the universities in the region are looking at generating more."

On the face of it, the restructuring of industry gives the universities a commercial opening which did not exist before. "Industry has now shed a great deal of the R&D [research and development] it had in-house. So there is an opportunity for universitias," suggested Mr Bushaway.

But Mr Leonard is doubtful whether much more research work will be farmed out. "Some companies have abandoned research altogether, rather than commissioning research by others."

The universities – Aston, Birmingham, Central England, Coventry, Keele, Staffordshire, Warwick and Wolverhampton – are rivals to the extent that they vie for undergraduetes and post-graduates. Many have links with companies for particular courses: Birmingham Business School and Powergen for the MBA, for example.

But all do contract research, and in the industrial world they frequently have niche areas of expertise: Birmingham (advanced materials), Warwick (manufacturing systems), Staffordshire (ceramica). This reduces the chances of the universities tripping over each other in the attempt to create lucrative links with business.

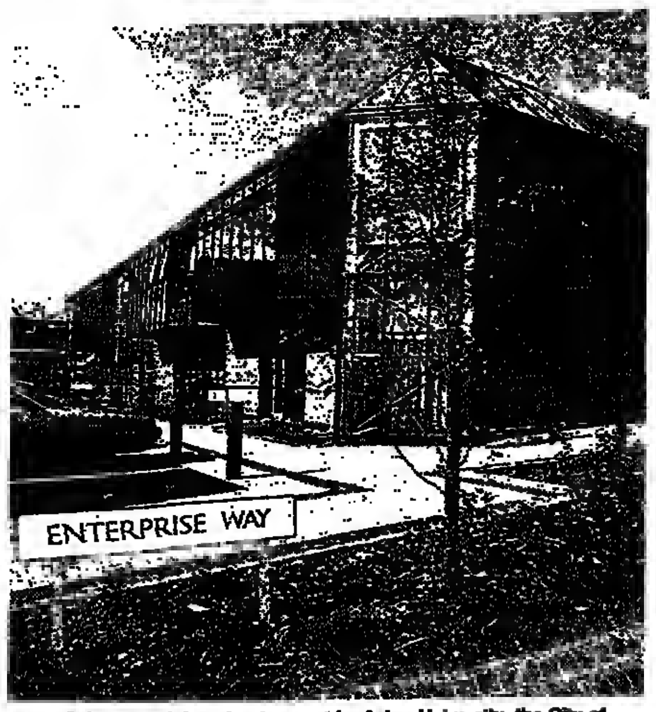
"There's so much business for oniversities [that] we shouldn't be in competition. If we did it all, we couldn't cope," said Ms Anne Doughty, director of Staffordshire University Enterprises.

"There's a lot of networking with other nniversities et working level, but not at institutional level," noted Mr Colin Rickwood, director of Birmingham's business school.

Indeed, officials from each university, responsible for liaison with industry, meet regularly at the government's regional offices to exchange notes. So universities are being drawn more deeply into the weh of agencies interested in, or responsible for, economic development.

For example, Birmingham's prospectus for City Pride, an invitation from the government to set ont a vision of future development, recognised that "there must he better exploitation of Birmingham's research and development capability." It stated confidently that "partnerships will be developed to provide the key brokerage-entrepreneurial role linking research activity to husiness and markets."

The suggestion of a Birmingham Investment Fund is one way of creating such a partnership; but how, in more general terms, this role might materialise is unclear. In any case, it is a role which is of most relevance to smaller companies. The larger ones will go their own way, creating their own univereity relationships, as Rolls-Royce and Lucas have with Birmingham, or Rover with Warwick.



Aston Science Park is a development by Aston University, the City of Birmingham and Lloyds Bank

Universities themselves have tended to see business or science parks as a link with the wider commercial world. Such parke, attached to universitiee, are scattered across the region and growing in number: Wolverhampton is the latest to develop one. They could be the incubators for fnture high-technology companies.

Looking at the Warwick park, arguably the best known in the Midlands and home to 60 companies, Mr David Storey, of the university's business school, identified three types of tenant: academics seeking a commercial spin-off from their activities; businesses which seek links with the university, in either an academic or social sense; and businesses that see the parks as a desirable location but are not seeking to exploit a formal link with the university. It is to this last category that universities will look first in their search to tighten the academic-industrial nexus.

There could be obvious benefits in economic terms. Resaarch at Warwick University, said Mr Storey, had shown that "science-based independent businesses have faster growth rates and lower failure rates than typical small businesses."

In terms of job creation then, there is a strong regional incentive to draw the universities into the wider commercial community – which explains the government's interest in Coventry'e plan to encourage suitably abla graduates to waste no time in plunging into commercial waters.

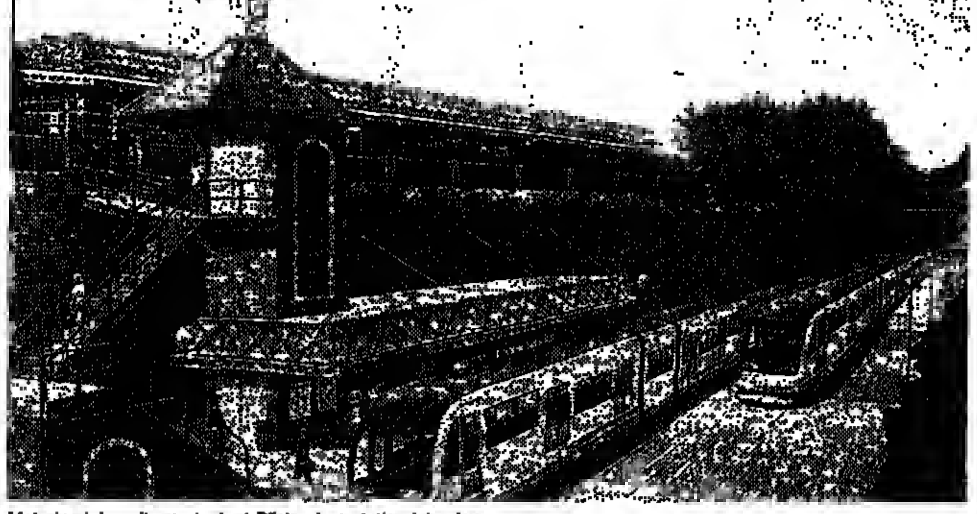
The extensive transport system is still inadequate, say businesssmen

Unease at the nation's crossroads

The West Midlands region has an extensive road system, the UK's main north-south rail link, and an international airport within easy reach of Birmingham city centre.

However, businessmen argue that the principal roads are congested, and they point to the increasing need for supplier companies to meet the faster and more accurate delivery times required by big manufacturers. They complain about a lack of investment in the main west coast railway line, just as it is becoming a vital access route to the Channel tunnel.

The airport is gearing up for expansion and is hoping to attract travellers who currently prefer to use Heathrow or Manchester.


Metroland: how it may look at Bilston bus station interchange

Mr Tony Bradley, home policy manager of Birmingham chamber of commerce, argues that transport is the key to everyone else's industry. The transport network that grew up to serve West Midlands manufacturing became one of its strengths as its dependency on exports increased.

Birmingham found itself at a transport crossroads, and pressure on links intensified as more motorists used roads built to serve industry, and as those roads became through-rontes on the south-east to north-west axis linking the country's three main conurbations.

The stretch of the M6 across the north-west of Birmingham is a prime example. Built to a capacity of 80,000-90,000 vehicles a day, it is now carrying 115,000. A second public inquiry is under way into a proposed new motorway – the Birmingham northern relief road – to take through-traffic away from the conurbation.

After the first public inquiry tha road was approved, but then the government decided it wanted it to be the UK's first private-sector tolled motorway. This time there are more objectors, as some believe a toll motorway would put the area at a disadvantage.

Further north, there are plans to widen the M6 between Stafford and Manchester.

Much local lobbying has tried to persuade the government to allow the upgrading of the 500-mile west coast main line, the railway linking London, the Midlands, north-west England and west-central Scotland. Inter City, the train operator, is doing its best, running a service on 30-year-old equipment. Railtrack and WCML Development, a private sector consortium, are carrying out a feasibility study for the upgrading.

Planning permission has been given for two regional freight terminals – at Daventry and Hams Hall – to serve Channel tunnel services.

The West Midlands is one of the few conurbations of any size without an underground or light rail rapid transit system. This is a deficiency the region is anxious to put right. It regards the plan for a three-stage development, starting with a line from Birmingham to Wolverhampton, as a main contender for government help.

There are also hopes that this metro would have a link with the airport, whose finance director, Mr Stephen Greenwood, argues that expansion could be an important jobs generator. The airport will handle about 5m passengers this year – a further 1m, he said, could add 1,000 jobs to the local economy.

Birmingham airport's expansion plans are based on getting a bigger share of the market in its own back yard. The airport meets about half the region's leisure demand (compared with Manchester's 95 per cent) and 41 per cent of scheduled demand (65 per cent). Thirty-eight per cent of West Midlands passengers for Paris use Heathrow in spite of Birmingham's offering nine flights a day.

To rectify the situation, the airport this month opens a marketing campaign based on the slogan: "The world on your doorstep." It will emphasise the services, as well as the airport's relatively easy access and parking and its claimed advantage over Heathrow in speed of baggage and passenger handling.

The airport's expansion plans involve more than doubling the main terminal area, and expanding the Eurohub terminal used by British Airways to create capacity to handle at least 11m passengers a year by 2005. Planning permission will be applied for early next year.

In the longer term, the airport wants to extend its runway from the present 2,600 metres to 3,100m, to enable it to serve the most distant long-haul destinations. Mr Greenwood emphasises that the airport can expand regardless of that extra capability. It is currently in public consultation, especially with affected communities, and will not seek planning permission for two to three years.

Crucial to any large expansion is the airport's plan to end its public-sector status, so that it can fund its £150m-£200m development without an impact on the public sector borrowing requirement. It is owned by seven local authorities – Birmingham, with 38 per cent, and Solihnll, Coventry, Dudley, Walsall, Sandwell and Wolverhampton in 8-12 per cent parcels.

The councils have agreed to become a minority shareholder, and control collectively no more than 49 per cent. The rest will be disposed of by attracting strategic partners to invest in the airport, placing shares with institutions or a combination of the two. The government has approved the move in principle, and the airport is aiming for partial privatisation by next spring.

Tom Lynch

Hazel Duffy examines the region's lack of cohesion

Wheels within wheels

The West Midlands is a disparate area which exists as a region for the purposes of government administration rather than for any historical reasons.

It has no distinct lobbying strength in Whitehall in the way that Scotland and Wales have, for instance, with their Cabinet representation; or even as tbe north-east of England has managed to put together in the past decade. The new government regional offices in England do not have a direct line to the Treasury, but must go through each of the relevant Whitehall departments when bidding in the public expenditure round.

Reconciliation lies not with any single body, but a forum of authorities complemented by the government office

Tbe West Midlands' cities – Birmingham and Coventry – and the urban and industrial mass of the Black Country have not been as successful as, say, Glasgow, Manchester and Sheffield in forcing the hand of government towards aiding their regeneration – no doubt because, until the mid-1970s, this was a much more successful area.

In pushing for better transport and communications, the West Midlands has had little success. The road to relieve the congested M6 north of Birmingham is unlikely to come into being until the end of the decade.

Birmingham and the Black Country are still without a good passenger transit system, and the area has yet to see the investment in the Inter-City rail line which would speed up services to London.

Traffic at Birmingham airport is expanding, bnt the range of international destinations is considerably smaller than those from Manchester.

In earlier years when efforts were heing made to reduce dependence on manufacturing the appearance of Birmingham, strangled by roads, and shorn of the sort of huildings that were being smartened up elsewhere, could be seen as a liability.

The city fathers, Labour and Conservative, have been successful in prising money out of Brussels to smarten up the city centre. Birmingham city council, with the biggest budget of any local anthority, still sees itself as the powerhouse in the region, in spite of the erosion of local government responsibilities in favour of government-appointed quangos. But there is co-operation between the council and the quangos – and between Birmingham and the Black Country authorities on the one hand, and Birmingham and Coventry councils on the other.

The pre-eminence of Birmingham as the centre for husiness services is undisputed. Other local councillors in the region may have resented the city's dominance in the past, but there is now a growing awareness of the need for the region to upgrada and compete more effectively in every sense, and for the different parts to complement each other.

Except that it is not a region in any cohesive sense. Economic geographers saw the West Midlands as straddling the traditional north-south divide of Britain, with the south of the region relating more to the prosperous south of the country and the north having more in common with the industrial landscape of the north.

The sharpness of tha divide may hava been alleviated by the impact of recession on the south-east and the regeneration of the north, but it still exists in the sense that the pressures to expand and develop are greater to the south than to the north. They have been intensified with the completion of the M40 and M42 motorway network which has made more attractive the areas to the sonth of Birmingham and Coventry. Meanwhile, the brake on development in the north of the region was consequent on the long delay in commissioning a relief road to the M6.

The government's draft regional planning guidance on land use, issued in September 1994, is clear about the need for local authorities to steer development to the north and west of the region, and resist pressure from developers to take bites out of the green belt to the south. The so-called Middle Ring of towns – from Warwick\Leamington through Kidderminster\Stourport, Telford, and round to Lichfield – have been on the receiving end of the flight from the metropolis. The aim is to develop not here, but in the inner areas of the depleted cities.

Developers will be inclined to exert pressure on authorities to develop where they see the best return. Considerable subsidies will be needed to tempt them into the inner city, emphasising the need for urban authorities to produce schemes which will win a chunk of the government's Single Regeneration Budget for the region. Birmingham has recently won development area status, although the lobby was more from local government than local business, wbicb was reluctant to be tagged with a label that indicates that the area is in dire need.

Birmingham and area business chiefs have been working to boost the city within Europe in the past few years. But they have yet to constitute a powerful base akin to tha business-based teams in some American cities, or even other parts of Britain, which have helped to improve the environment and attract newcomers. Business in in the region seems only recently to have become aware of the environment.

In the 1960s, developers and architects, and a few leading companies, together with the city council, formed a convenient, informal coalition. The scene is now more complex. Many family-owned companies were swallowed up, or simply went out of business. Birmingham still has more head offices than any city outside London, but exective decisions on behalf of the big companies are made outside the city, and outside the country in some cases. Lobbying-power and influence lies more with a few individual business chiefs than with institutions.

Parts of the shire counties hava very different concerns from the built-up areas of the region. Isolation, rather than congestion, can be the problem here. The image conjured up

Continued on facing page

Sectoral performance: **Paul Cheeseright** looks at different parts of the regional economy

Engineers point way out of recession

Engineering companies across the region have been reporting fatter order-books during the past three quarters. There is more optimism than at any time since 1990.

"Companies were very nervous at the start, but latterly it seems to be generally accepted that business in most sectors has improved considerably," said Mr David Botterill, chief executive of the Engineering Employers' Federation West Midlands.

But recovery is by no means uniform. The leading performers have been the automotive and the electronic sectors. The laggards have been companies tied into the aerospace and construction industries.

Thus, on one hand, Rover reported a 9 per cent increase in volume sales over the first three quarters of the year, and announced the recruitment of 1,450 new staff; and Lucas Automotive reported a 13 per cent increase in sales for the year to last July.

On the other hand, Lucas Aerospace also reported difficult conditions in the aerospace markets, and predicted little improvement until 1995-96, while smaller groups active in the sector, such as Hampson Industries and TransTec, saw their profits deteriorate.

Mr Botterill noted that, in the electronics sector, performance was strong where sales related to the automotive industry or to machine tools and investment equipment. Significantly, in that context, production this year at Cincinnati Milacron, the machine tool maker in Birmingham, has been running at double the rate of 1993. But in the consumer electronics sector, the performance has not been so strong.

Despite the overall improvement in the performance of the sector, immediate problems remain. Pressure on margins remains very tight. "In the third year of recovery, margin replenishment has not gone as far as one would have expected," said Mr Botterill. Indeed, customers are resisting price rises, and manufacturers are being forced to absorb increases in raw material prices.

More fundamentally, the pressure on the original equipment manufacturers to reduce the number of their component suppliers, most noticeably in the automotive and aerospace sectors, is resulting in continuing rationalisation among component makers as they strain to retain their competitive position.

The West Midlands is acutely sensitive to such changing commercial patterns. This follows from the structure of manufacturing, the heart of which is in Birmingham.

"There is a marked specialisation in a narrow range of inter-linked engineering industries, specialising in the production of motor vehicles, investment goods and associated components and materials," noted the Birmingham Economic Information Centre (BEIC).

This concentration did not serve the city well in the 1980s when growth was rapid in sectors such as computer hardware, pharmaceuticals, aerospace, plastics and electronics. More recently, restructuring has tended to concentrate on the introduction of new technology, which, in turn, has eliminated more basic metal-bashing.

Over the past two years, the engineering sector has underpinned the movement out of recession. BEIC predicts, between now and the year 2005, annual growth rates of more than 3 per cent in the city's production of metal goods, more than 6 per cent in electrical, electronic and instrument engineering, and more than 4 per cent in motor vehicles.

"We need a long period of low inflation, consequent low interest rates and sustainable levels of investment," said Mr Botterill.

■ PROFILE: Grove Industries. The acquisitive group, based in Stratford-upon-Avon and run by Mr David Groves, is looking for engineering companies to add to its collection of interests in press work, machined components and injection moulding.

The group, which this year will make pre-tax profits of about £2m on turnover of £40m, is half owned by Close Brothers, the London merchant bank and half by Mr Groves. Close uses Grove as a vehicle for its investment in manufacturing.

Like its peers, Grove is finding trading conditions easier but not easy. "The economy is quite buoyant. There's a lot of pressure on margins. In the past when the UK started to generate growth of 3 per cent, then companies were able to push prices up and enhance margins. That is not happening at the moment," Mr Groves said.

"I see varying signs of inflation. I see a labour situation where there is a shortage of skilled labour and managerial talent. There's also a significant increase in raw material prices, especially over the last six months," he added, noting polypropylene price increases of 25 per cent and paper and board increases of 20 per cent.

As a sub-contractor, Grove is intent on building long-term relations with the systems makers. "We've developed technical teams whereby they are able to help with re-engineering the products and reducing the costs." It is the key to staying in the game. "We want to be involved with design, work alongside, make them more reliant on us, as we are on them."

Financial services expands again

The regional financial services community, centred on Birmingham, reports increasing business. Mr Peter Willis, chief executive of Birmingham City 2000, which acts as an umbrella group for the sector, says some firms are considering whether to resume recruitment.

"Activity levels are rising. Part of [the reason] is that there's a huge backlog of projects which have been shelved over the past four years," he explained.

Ernst & Young, accountants, said its management consultancy activities had increased by 30 per cent over the past year. 3i, the largest venture capital group in the UK, reported that, in the West Midlands, it had invested more during the first half of 1994 than in the whole of 1993.

There is increased activity, too, among solicitors. Evershed declared a 5 per cent increase in turnover to £16m at its Birmingham office during the year to April, and observed that the increase was accelerating this year. Edge & Ellison said its business was running 15 per cent ahead of last year, although there was pressure on margins.

The financial services community in Birmingham has started to grow again. During the recession some of the London merchant banks withdrew. Now, Henry Ansbacher has arrived. BWD Rensburg has joined the ranks of the stockbrokers, a small community where the leading operator is Albert E.Sharp.

In spite of the revival, the main preoccupation of the financial services community is to keep regional business within the region. "Once an initial transaction has gone to London, there is much less opportunity for the local financial community to service it," said Mr Willis.

Flows of business are difficult to monitor, but there appears to have been some success in stopping business drifting to London. "There have been a load of management buy-outs in the last five years which would have been done in London before," said Mr Digby Jones, deputy senior partner of Edge & Ellison.

There have also been some highly publicised transactions using wholly West Midlands services – for example, the arrangement by Coopers & Lybrand, accountants, of the Leyland Daf Vans management buy-out from the receiver in 1993.

That also showed how accountants have been moving into the market gap left by the merchant banks.

The difference between Birmingham and the much larger London financial services community is that the latter has a life of its own. Birmingham does not.

Manufacturing, said Mr Willis, is absolutely vital: "We cannot get away from the fact that the skills of the West Midlands are transferring materials into products. That is the core of financial services activity. Other things become important adjuncts to that."

Growth of the sector thus becomes a matter of preventing local business from going elsewhere and developing an international approach to business, which ties in with the more export-oriented manufacturing companies. "We could be a professional stepping-stone for those who want to do business in Europe. Why should London be the only stepping-stone?" asked Mr Willis.

■ PROFILE: 3i. The venture capital group invested £26m in West Midlands companies during the year to March, and now Mr Chris Rowlands, the regional director, reports increased business.

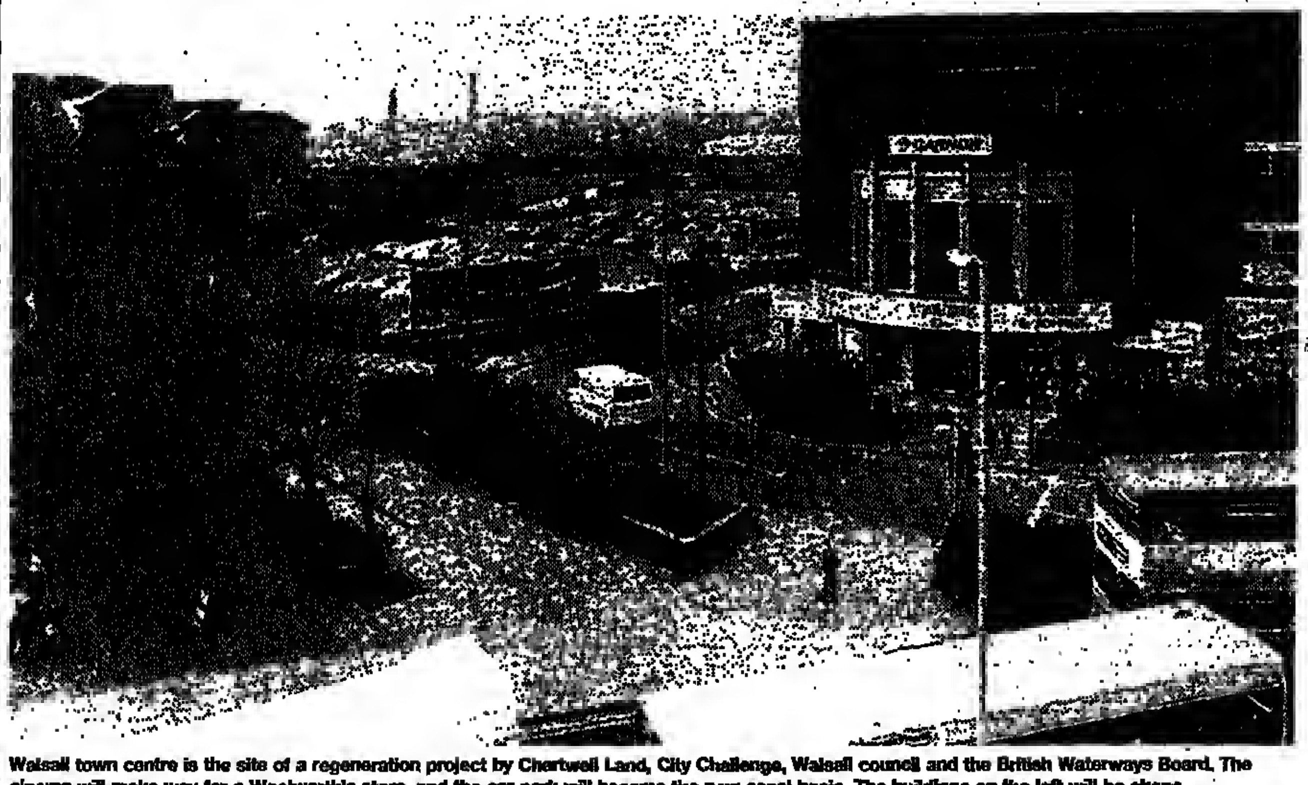
Buy-in and buy-out activity has continued strongly in 1994. Demand for expansion capital, mainly from companies seeking to make acquisitions has also been growing, 3i reports.

Alongside this corporate activity, the demand for 3i funds from existing companies, to assist expansion, has been sluggish.

Mr Rowlands said that, in the late 1980s, about 40 per cent of 3i funding had gone into such projects. Now, it was more like 20 per cent.

He has noticed another difference. "Over the last 18-24 months, there has been a significant change in the way the mid-size corporate deals – for companies with turnovers between £15m and £50m – are being done.

"Predominantly, they are being handled by regional professionals. What are organisations going to do if they are based only in London?"



Walsall town centre is the site of a regeneration project by Chartwell Land, City Challenge, Walsall council and the British Waterways Board. The cinema will make way for a Woolworth's store, and the car park will become the new canal basin. The buildings on the left will be shops

Weekend still a problem for hotels

Hotel and catering business across the region is picking up as the economy moves out of recession.

"Sales are moving forward for everyone," said Mr Clive Stone, managing director of Redcliffe Catering. For Birmingham, he puts the increase in business, compared with 1993, at up to 7 per cent during the first nine months of the year.

"In the last six to nine months, we have seen a general upturn and a strengthening of bookings, and that seems to be spreading to advance bookings," Mr Stone said.

But the advance is off a low base. There was a surge of hotel building in Birmingham during the late 1980s and early 1990s – just in time for the recession. Birmingham Marketing Partnership's hotel-occupancy figures for 1993, covering eight city-centre hotels, showed an average occupancy rate of 56.42 per cent.

Although mid-week business is described by Mr Stone as "reasonably good", Birmingham hotels face the perennial problem of finding weekend occupants. Moreover, hoteliers are forced by immediate market conditions to offer keener prices than their peers in London and Edinburgh.

Yet the underlying conditions are sound. According to Department of National Heritage figures, based on the number of staying visits, Birmingham is the fourth most visited city in the UK after London, Edinburgh and Glasgow.

The region has its share of tourist attractions, including Shakespeare at Stratford-upon-Avon; Ironbridge, the birthplace of the Industrial Revolution, in Shropshire; and the Alton Towers theme park.

But the main aim of policymakers since the 1970s has been to build up the regional services sector. There has been extensive public-sector investment, both in the National Exhibition Centre, the International Convention Centre and the National Indoor Arena; and also in the growth of a cultural sector based on the City of Birmingham Symphony Orchestra and the inward migration of the Birmingham Royal Ballet and the D'Oyly Carte Opera Company.

Yet the pattern of future development is difficult to predict. "There is nervousness about long-term capital investment," suggested Mr Stone. "There is no problem for the next one to three years. The concern is three to 15 years out."

In his view – which is not unique – the key to future growth in the sector is: first, the continued development of Birmingham Airport and the NEC-ICC-NIA complex; and second, a substantial tourist attraction to draw in daily visitors.

The distribution-hotels-catering category of employment is already one of the three largest in the West Midlands, accounting for 21 per cent of jobs. Birmingham Economic Information Centre forecasts a growth in sectoral output of over 30 per cent by 2005.

■ PROFILE: Solihull Moat House is the only 4-star hotel in Solihull, the town nearest to the National Exhibition Centre. But, unlike the Metropole, which is adjacent to the NEC and drawing much of its business from the centre, the Moat House depends on local business.

"The majority of our customers are local privileged people on contract rates," said Mr Brian Dunn, the manager. "To get a consistent base through the year, we prefer to deal with local companies." He had in mind groups such as British Gas and Lucas.

As such companies undertake more training courses, so they bring their employees into the hotel. Like the hotels in Birmingham, the Solihull Moat House has seen business pick up this year. But, said Mr Dunn, "the growth is not in occupancy volume but more in price".

The hotel has 115 bedrooms, and is currently running on a 72 per cent occupancy rate. This opens up the possibility of hardening the rates charged to customers. "At a top-class hotel, the challenge is getting the rate. A 4-star hotel could [be filled] every day if it charged the same as a 3- or 2-star: it would be just offering better service for less," said Mr Dunn.

It is an indication of the recovery in the sector that, as Mr Dunn put it: "The whole market is beginning to firm up and we can firm rates up. It's like the aircraft business. If BA has seats available, then there are more offers available."

Distribution survives the downturn

Business parks are being developed or considered right across the West Midlands – in urban and rural areas, along the M6 and the M42, and at the northern ends of the M5 and the M40.

The region, at the centre of England and within easy reach of big concentrations of population, has provided a firm base for certain types of property investment. Geographically, it is convenient. It has not been subject to the same sharp movements of, for example, the London office market. This steadiness has not escaped London investment managers.

"Distribution and warehousing markets in the West Midlands have proved to be relatively recession-proof," said Mr Andrew Nesbitt, property director of AXA Equity & Law Investment Managers. "Demand for space has remained constant, and supply has stayed tight."

This may not be the case in future. Jones Lang Wootton, chartered surveyors, has estimated that around 20 motorway junctions within 25 miles of Birmingham there are 1,500 acres of land for which planning permission to establish distribution parks exists or is being sought.

This could translate into between 22m and 25m square feet of built space, according to Mr Dick Harvey, in charge of JLW's Birmingham office. "That's a lot of space. With low inflation, you have to get the product and the location right to get it away," he said.

By comparison with south-east England, land prices are modest, between £200,000 and £250,000 an acre in the Birmingham area. And rents, said Mr Andrew Jackson, industrial property specialist at Weatherall Green & Smith, are not really moving: "They stay fairly flat at the moment, which is a function of the available space. But that is getting absorbed steadily."

He quoted rents of £4.50-£5.00 a square foot along the M42, £4.00-£4.50 in Birmingham and £3.50-£4.00 in the Black Country. They had been at these levels for at least two years, but "for existing buildings, the level of incentives is starting to fall and that is the first sign of rents beginning to rise."

In any case, for new property, leasing arrangements will have to reflect the higher construction costs which are emerging as raw-material prices rise from levels depressed by the recession.

Healey & Baker, chartered surveyors, noted: "Demand for design-and-build units is increasing across the Midlands from local industrialists, but 60 per cent of warehouse demand currently comes from third-party contract distribution companies seeking only 5-10 year leases."

Given that the development of the West Midlands distribution sector has gathered pace over the past 10 years, this points to changing patterns of demand for space.

"On the warehousing side, the move towards a more efficient form of distribution was led by retailers," explained Mr Jackson. "But in recent years there has been an increasing number of manufacturers who have been taking space. If they are able to hold stock more efficiently, they can save money, because they'll hold less of it – but also their customers want them to provide much quicker delivery times."

PROFILE: Hams Hall is an old power station site which is now the location for a rail freight terminal and business-distribution park on the grand scale.

"It is the largest by miles of any such project which can be built over the next few years," claimed Mr Alan Winter, managing director of Trafalgar House Properties.

The site is owned by PowerGen, which has a joint venture with Trafalgar House to provide the infrastructure. The joint venture will then sell land for development. "We are not going to build speculative space," said Mr Winter.

Powergen's land is close both to the junction of the M6 and M42, and to the railway network on the east side of Birmingham at Coleshill. There are 380 acres, which offer the possibility of about 5.5m square feet of business and distribution space in addition to the rail freight terminal.

The project provides an example of the way in which redundant industrial land is being transformed through alternative uses.

Mr Winter does not expect to sign any deals with potential occupiers until work on the site has started next year. But the interest is coming primarily from West Midlands industrial companies. Theoretically, the first freight train could run into Hams Hall in 1996, he said.

Whatever happens with the privatisation of British Rail, Hams Hall goes ahead. It is probably running slightly ahead of a similar project on a greenfield site near Daventry. "If both schemes are up and running, they do compete," Mr Winter acknowledged.

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There is no doubt about what Mr David Ritchie, the civil servant appointed to co-ordinate the government's work across the West Midlands, sees as the main problem for the region's economy.

"The single most important difficulty we have in this region is in skills and training. We have the worst-trained workforce in UK," he says.

Employers complain that school leavers do not have the levels of literacy and numeracy required in a world where skills in the workplace need to keep pace with technological change.

In 1992, 7.3 per cent of West Midlands school leavers had no qualifications, compared with a UK average of 6.6 per cent.

The UK has set national training targets, Lifetime target I is that 80 per cent of the workforce be qualified to NVQ (national vocational qualification) or equivalent level by 2000.

Lifetime target III is that half be qualified to NVQ level 3. The West Midlands is the third worst UK region in its progress towards the former and the worst in respect of the latter.

Surveys, such as the recent review by the Birmingham Economic Information Centre, suggest that the skills problems are greatest in the manufacturing sector, which is the mainstay of the West

The skills shortage is causing employers anxiety, reports **Tom Lynch**

A vital role for training

Midlands economy, and particularly among the small and medium-sized companies.

Many small companies continue to prosper without bothering with training. A caricature of such a company would be one run by a self-made entrepreneur with no formal training, whose employees are all trained to work their machines, and who continues to make enough profit to draw a good living and drive a big car.

Mr Edward Roberts, chairman of Heath Springs, a spring-maker with 112 employees in Redditch, south of Birmingham, does not fit that caricature.

A former chairman of Centec, the training and enterprise council for the area south of Birmingham, he is something of a missionary for the training cause.

Qualifications of Birmingham's resident workforce

	Birmingham	W Midlands region	UK
All higher level qualified as a percentage of:			
Economically active	13.5	13.6	16.3
Adult population	9.8	10.6	12.8
Higher level qualifications (% of adult population):			
Higher degrees	0.8	0.6	0.9
Degrees	4.7	4.6	5.9
Diplomas	4.3	5.4	6.0

Source: 1991 Census of Population

Most companies, he says, "train because people say it's necessary, but they are not quite sure what it is and they don't relate it to the requirements of their business." He cites as a particular weakness reluctance among the owner-managers of some companies to accept that they might benefit from training.

The majority of companies are reasonably good at statutory training, such as health and safety and first aid, he says, but because they don't think about training for the long term strategic development of their companies, skill shortages are inevitable.

There are skill shortages already, even at this stage of the recovery, says Mr Roberts. He identifies a shortage of good people in the 35-45 age bracket with experience of new equipment.

For his company, this means no night working – the employees do not have to do it. His overseas competitors do not have the same restrictions. "Twenty years ago, our competition was all within 25 miles. Now it is not in the UK."

Like many small suppliers to the automotive industry, Heath Springs is wrestling to retain the old skills – which Mr Roberts refers to as the "black arts" needed to run older machines which appear to have personalities of their own – while also developing skills to deal with fast-changing demands from customers, to flatten the management structure and cope with concepts such as statistical process control.

Skill requirements have changed dramatically in the past five years, he says. Customers expect his company to be much more pro-active in design, development and control of the parts it produces, while the flatter organisation "needs people who can communicate with other people and with customers".

Mr Roberts believes training in team leadership has paid off, as employees are encouraged to produce ideas. And more is being demanded in basic skills – he needs employees with managerial potential to have language skills, unthinkable 20 years ago in the UK, though not overseas.

But there is a downside, especially for the smaller company in a sector where it is one of only a few that take training seriously.

Its training investment can be wasted if a competitor pays a small amount of extra salary to snatch away an expensively-trained craftsman. Mr Roberts says he lost one a week after he returned from an expensive trip to the US.

Old skill: children visit Broadfield House Glass Museum, Dudley, refurbished to celebrate a traditional Black Country industry and to provide the base on which to develop a national glass museum

As a former training and enterprise council (Tec) chairman, he is positive about the new national vocational qualification system, and the way it enhances the self-esteem of people whose skills were once not accompanied by certificates. He is also supportive of Investors in People (IIP), the personnel development quality standard being backed by the government.

He believes the larger companies which already subscribe should promote it among their suppliers, in the same way as they promoted the quality standard BS5750.

Many commentators believe this is the way forward – if the big manufacturers required suppliers to take training needs seriously through IIP, there would be more of a level playing-field for companies like Heath Springs, and more trained people available in the region.

Rover Group says it takes an interest in the "whole business environment" of suppliers, although it did not currently specify any training measure. It might in future start specifying a measure, which might be IIP.

Mr Chris Tillett, a principal with Coopers & Lybrand in Birmingham, says most new investment is expected to be in small companies, which will not have in-house training capacity.

If there is not a supply of skilled people, it will be more difficult to compete with other areas for investment – Hertfordshire, for example, is trumpeting the availability of skills from the aerospace industry.

Mr Tillett says the better educated parts of the region, such as Shropshire and Warwickshire – are attracting higher value-added activities. For the Birmingham conurbation, however, skills remain a serious issue.

Continued from facing page

by the West Midlands is the built-up mass which extends from Coventry to Wolverhampton – the only break being the bit of green belt between Birmingham and Coventry. But the region also includes rural areas of Herefordshire and Shropshire. The continuing exodus of young people, in search of work, is the concern here; whereas in the inner areas of Birmingham and Coventry a different sort of depopulation, of the economically active, has been going on for more than 20 years.

At the official level, the reconciliation of the needs and demands of this diverse region lies not with any single elected body, but with a forum of local authorities which has no public profile, complemented by the equally low-profile government office which will be attempting to co-ordinate departments and convey to Whitehall its priorities for the region.

Ethnic diversity gives business a lift, but also raises problems

Beyond the corner shop

A recent survey from the Birmingham Economic Information Centre (BEIC) cites "clear statistical evidence" of discrimination against ethnic minority groups in the labour market.

It says unemployment among minority groups is double that among whites. Unemployment among those with higher qualifications was 8.8 per cent for ethnic minorities, 3.2 per cent for whites.

The 1991 census figures on the gulf between rich and poor surprised many people by their scale and by the deterioration since the 1981 census. Researchers from the BEIC – set up by the city council and the training and enterprise council – used the census to compile a study of deprivation, comparing the city's electoral wards.

Unemployment in inner-city Sparkbrook was 32.6 per cent, while in leafy Sutton Four Oaks it was 4.7 per cent. In Sparkbrook, 13.5 per cent of households were overcrowded (more than one person per room), compared with 0.5 per cent in Four Oaks. In Sparkbrook, 35.2 per cent of non-pensioner-only households had no earned income, against 4.2 per cent in Four Oaks. Sparkbrook had a black and ethnic minority population of 66.6 per cent, Four Oaks of 2.5 per cent.

Workers from overseas – particularly the Indian subcontinent and East Africa – were lured to the West Midlands in the boom times after the war, when factories were short of labour. In Birmingham alone, there are now estimated to be 66,000 people of Pakistani origin, 51,000 Indians and 13,000 Bangladeshis.

As workers in the older industries – often unskilled and semi-skilled – many were among the victims of factory closures in the 1970s, though, says Mr Ripan Sachdev, a chartered accountant in Coventry, some put their redundancy money to work in a small business.

He says the latest recession has damaged the Asian community significantly, with fewer opportunities for those made redundant.

Some of the small shops which had prospered are falling victim to the squeeze in retailing generally, while they and other small businesses do not have the technology and marketing techniques increasingly needed for survival. But as some areas suffer, there is hope in the way that younger Asians are taking over family businesses, with skills newly acquired in colleges and in self-help community initiatives.

Many textiles businesses were notorious as sweatshops. But Mr Sachdev says the sector is modernising, as companies bring in information technology and employ designers, aiming to sell to the high street retailer rather than the market stall. Some children of corner-shop owners are exploring other market sectors.

Mr Davinder Panesar, of the Indian Community Centre in Coventry, is attempting to build on the Asian tradition of working from home. He wants to replace the women's sewing machines with personal computers, to encourage the growth of teleworking. "We have the skills base, we have the skills in business, we have the ethic and philosophy of women working from home."

With a large contribution – about £340,000 – from a local Asian businessman, there are plans for a teleworking centre with a nursery attached, so that childcare can be provided while the women train and work.

Like Mr Sachdev, Mr Panesar sees great difficulties for people seeking work. Some had committed themselves to helping their parents in corner shops, which then went down in the recession. Competition for jobs is intense, though Mr Panesar plays down the role of crude racial discrimination – often, he says, a youngster from college is competing with a redundant executive with a track-record and a network. He also believes the new generation has lost some of the vigour and vision which drove their parents to build their businesses.

Working with the University of Coventry, the centre saw a need for an academic platform for Sikh culture – 54 per cent of the city's ethnic minority population is Sikh – and the university has agreed to help accredit a course in Sikh philosophy and theology.

In the field of practical skills, a national vocational qualification is being developed in authentic Asian cuisine, gaining accreditation for the ability that thousands of people, especially women, already have.

The Asian community has in the past, says Mr Panesar, been "quite disorganised". Now, locally-educated British Asians know the country's systems and standards and have the skills, especially with computers, to use their knowledge. Mr Panesar says the community is organising itself and building networks across regions, counties and cities – "and soon across countries".

Such initiatives will make a difference, but more help from outside is needed to address the intractable problem of the inner cities.

The economic review from the BEIC issues a stern warning. A growing proportion of school leavers will be from ethnic minorities, it says. "Discriminatory and other barriers will need to be addressed urgently by employers and others if a satisfactory supply of labour is to be maintained. In particular, recruitment of Asian women needs to be encouraged," it says.

"Some employers will only consider recruiting from minority groups when the economy grows quickly. Without intervention, these trends will have major implications for the Birmingham economy."

Tom Lynch

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Monday November 7 1994

MARKETS THIS WEEK

BRONWEN MADDOX:
GLOBAL INVESTOR
In tha past year, investors' enthusiasm for commodities has looked like a rare example of perfect timing. But one nf the main props for prices is inflationary fears, fuelled partly by the rising cost nf commodities themselves. Page 22

MARTIN WOLF:
ECONOMIC EYE
According to some estimates, China already has the world'a second or third largest economy. But, argues Martin Wolf, these figures definitely do not mean that it is, or very soon will be, a superpower. Page 22

BONDS:
The Treasury bond market seems likely to remain in a jittery mood this week. With the Federal Reserve'a policy-making committee due tn meet eight days from now, there seems little Immediate cause for buyers to come back to the market. Page 24

EQUITIES:
London – The 3,100 mark on the FT-SE 100 Index scale is beginning tn replace the Berlin Wall in the minds nf UK Investors. New York – two themes – rising bond yields and fears nf inflation – are likely to continue tn haunt the stock market which no longer has the crutch of encouraging corporata earnings to rely upon. Page 23

EMERGING MARKETS:
Strong economic recovery after years of recessinn underpins the stock market boom that is making Lime the new darling among Latin American emerging markets. Page 23

CURRENCIES:
The dollar will remain the centre of attentinn, even if intervention by the Federal Reserva last week effectively put a short-term floor under the currency. Page 23

COMMODITIES:
At the London Matal Exchange board meeting on Wednesday members will be paying particular attention to see if there is any development on plans to extend the exchange's warehouse coverage to the US. Page 22

UK COMPANIES:
Ordinary Investors in Queens Moat Houses, the heavily-indebted hotels group, may find their shares are not completely worthless when the protracted £1.3bn debt restructuring is agreed later this month. Page 20

INTERNATIONAL COMPANIES:
Banco Ambrosiano Veneto, the Italian bank, claimed at the weekend that the takeover planned by Banca Commerciala Italiana (BCI) and announced only last week was already doomed to fail. Page 21

STATISTICS

Deutsche Bank braced for battle

By Andrew Fisher in Frankfurt and John Gapper in London

Deutsche Bank will mount a legal challenge to any move by the German government to force it to reduce its equity holdings in companies without tax relief, according to Mr Hilmar Kopper, chairman of Deutsche's managing board.

Mr Kopper said that Deutsche would take its case to the Federal Constitutional Court if political objections to the level of its holdings – which surfaced in Germany's recent election campaign – resulted in legal curbs.

He said in an interview with the Financial Times that such a move would constitute expropriatioo of assets. "Why should a citizen of this country be forced to divest some of his assets and share the proceeds with the government?" be said.

Its boldings, including 24.4 per cent of Daimler-Benz, tbe vehicle and aerospace group, have a market value of DM25bn ($16.7bn). The proceeds from sales would be subject to taxes of around 60 per cent on realised capital gains.

"If we were forced to sell off, and that would mean paying taxes on unrealised gains, we would think that was definitely unconstitutional," said Mr Kopper. He said be believed this point was so clear that no such law would be passed.

Before October's election, tbe opposition Social Democratic Party (SPD) proposed a law requiring banks to cut industrial holdings. It is likely to be reintroduced in the next session, but with little chance of success.

However, some members of tbe Free Democratic party (FDP), the junior party in the Bonn coalition, also support a reduction and political debate about banks' influence on industry continues.

Among other companies in which Deutsche Bank has significant stakes are Allianz, Europe's largest insurance group (10 per cent), Continental tyres (10.5 per cent) and Philipp Holzmann construction (25.9 per cent).

Deutscbe has a policy of trying to reduce its larger equity stakes – many of which were acquired in debt-for-equity swaps when the companies concerned were in trouble – in order to diversify its industrial portfolio.

Mr Kopper said that the bank wanted to keep its portfolio at the same size, but would be interested in buying boldings outside Germany, particularly in other European countries.

Althougb bank shareholdings account for less than 1 per cent of all quoted German companies' market capitalisation, the high visibility of some stakes has led to adverse publicity.

As the boldings were mostly acquired many years ago, their valuation to the balance sheet is well below market levels. "Their book value is low, and the yield that they generate is very good as a stabilising factor in our profit and loss account," Mr Kopper said.

Rebuilding a reputation, Page 17

Lloyd's capacity forecast to shrink

By Ralph Atkins, Insurance Correspondent, in London

The underwriting capacity of Lloyd's of London will shrink next year – in spite of the injection of fresh capital from corporate investors, according to Mr Peter Middleton, the insurance market's chief executive.

Lloyd's authorities are expected to begin work next year on a three-year business plan, to start in 1996. They hope that 1996 and 1997 will mark a decisive revival in the markets' prospects after the heavy losses reported in recent years.

Mr Middleton said Lloyd's had to make substantial progress in cost control if it was to ride out an anticipated downturn in insurance rates. He hinted that the trend towards direct policy writing would lead to a review of the markets' relationship with its brokers.

He added that one of the most decisive events would involve Newco – tbe company Lloyd's has set up to take over outstanding liabilities on old policies, particularly US asbestosis and pollution claims dating from the 1940s.

Mr Middleton envisages putting the 1985 and prior liabilities into Newco at the end of 1995. He said the other "open years" – 1986 and later – would be put into Newco at the end of 1996.

Lloyd's leaders believe that if Newco is successful, corporate capital could be attracted back to e trouble-freed Lloyd's. That scenario, bowever, also assumes a sattlement is reached with the loss-making Names seeking compensation in court.

Mr Middleton said applications had been made by about 30 corporate vehicles to enter the market next year. But investors' appetites have waned, with shares in most quoted Lloyd's companies trading below listing price. Mr Middleton forecast corporate investment next year would be only about £250m ($410m) more than the £900m committed in 1994 (the first in whicb corporate capital was allowed).

Under Lloyd's rules determining the amount of business being underwritten, that sbould increase capacity by about £500m. But an estimated 1,000 Names have resigned and others are expected to reduce tbeir underwriting in 1995. Thus total capacity is forecast by Mr Middleton to fall to between about £9.25bn and £9.5bn from £10.9bn in 1994.

Patrick Harverson writes from New York about a controversial bonds market pay move

Salomon forces directors to share pain as well as gains

Is Salomon Brothers turning into Goldman Sachs? Thirteen years after Salomon went public, the Wall Street bond trading firm appears to be metamorpbosing back into a private partnership.

Just like its celebrated rival Goldman, Salomon has come to tha conclusion that the best way to motivate its top executives – the ones who generate the bulk of the firm's earnings – is to tie their pay directly to performance. This way, the interests of the employees are closer to the interests of the wbola firm.

However, Salomon is not going to mimic Goldman exactly. Salomon is owned by its sharebolders, and there are no plans for a management-led buy-out. Nor are there plans to use senior executives' money as risk-taking capital, as happens at true private partnerships such as Goldman.

Instead, Salomon's ruling triumvirate – chairman Mr Robert Denham, chief executive Mr Deryck Maughan, and chief shareholder Mr Warren Buffett – are seeking to create a hybrid, what Mr Maughan likes to call a "synthesis of public capital and private partnership".

Ten days ago, Salomon took *the first step towards that goal* when it unveiled a new system for compenseting the 140 or so managing directors in its client-related businesses – tbe top bankers, salesmen, traders and analysts who serve the broking and investment banking needs of Salomon's institutional clients.

Under the new pay plan, which will be introduced in January, the managing directors will be paid a guaranteed minimum annual salary totalling just 35 per cent of their 1994 compensation. They will not begin to earn any bonuses (which traditionally make np the bulk of their earnings) until the entire client-driven business earns at least a 7 per cent return on equity capital. Once that threshold has heen exceeded, the managing directors will receive 40 per cent of any additional profits.

At the same time, a new pay plan is being introduced in Salomon's proprietary trading operations, wbere the firm trades its own money in the financial markets. From next year, managing directors in proprietary trading will be paid from multi-year deferred accounts. Tbese accounts will pool traders' bonuses over a period of several years, but if proprietary trading loses money at any time during the period, some of the bonuses from profitable years will be retrieved from the pool.

The aim of the new compensation plan at Salomon is to introduce a notion that is truly radical by the standards of Wall Street's public firms – downward mobility in managing directors' pay.

Selomon's management believes the lack of pay flexibility *is the problem with the current* system. At tbe moment, wben the firm prospers, so do the highest-paid employees, in the form of big bonuses. The sbarebolders also benefit, in the form of e higher Salomon share price and dividends. When Salomon suffers, the sharebolders bear the brunt of the poor performance through a lower share price and dividends, while the managing directors are cushioned by compensation packages *that* are generous enough to ensure Salomon's pay remains competitive.

This divergence between pay and performance is exactly what Salomon ts experiencing this year. Barring a spectacular recovery in tbe fourtb quarter, tbe firm will lose money in 1994, while employee compensation will decline only sligbtly (currently, pay costs are down only 7 per cent compared to a year ago).

While the new pay system may help Salomon control its costs better in coming years, it will do nothing to address tbe underlying problems that bave left the firm nursing losses on both its client-driven and proprietary trading businesses this year.

Salomon remains relatively sanguine about the poor performance of its trading unit, which has lost $21m so far this year. Tbe firm points out that its proprietary trading strategies are designed to be profitable over the long-term, and says that the results of tbe business should not be judged over any period sborter than four quarters (over the last 12 months, proprietary trading has made a profit of $487m).

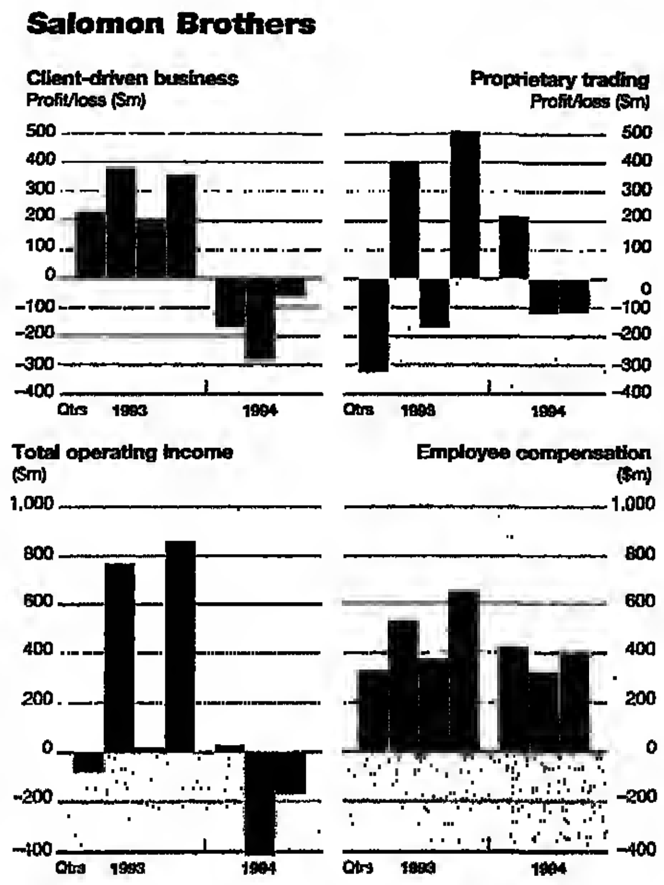
Salomon has had a harder time explaining wby its client-driven *business has performed* so badly.

Salomon has lost $526m on its client-driven business so far this year, compared to profits of $805m in tbe same period of 1993. This dramatic deterioration was attributed to mismanagement of derivative-like securities known as collateralised mortgage obligations (CMOs). The value of CMOs plunged earlier this year wben the mortgage-backed bond market slumped.

Since theu, Salomon says it has cleaned up the mortgage-backed mess, bringing in new manage*ment to the department*, selling off a large part of its inventory of CMOs, and introducing strict new position limits for its traders. Tha rest of its client-driven business, the firm insists, is bealthy.

Salomon's managing directors must hope so, because from January, their meagre salaries will only be supplemented if the client-driven business generates substantial profits.

The firm says that tbe changes to compensation have the support of most of its managing *directors*, bnt *admits there is* some unhappiness. To reassure them that the changes are for the good, Mr Maughan has already begun to talk of the role of "partners" at the firm. As a former Goldman Sechs investment banker, Salomon's chief execntive knows only too well about the risks and rewards of partnerships. His managing directors can only hope that in the coming years, the rewards will compensate for the risks.



This week: Company news

UNILEVER

Ice cream sales help sweeten pre-tax profits

Soaring ice cream sales could be the third-quarter success story Unilever chooses to highlight on Friday when it reports a rise of some 9 per cent in pre-tax profits to £710m ($1.1bn).

The Anglo-Dutch consumer products group, the world's largest ice cream maker, will be grateful for any topic which takes minds off its detergents war with Procter & Gamble.

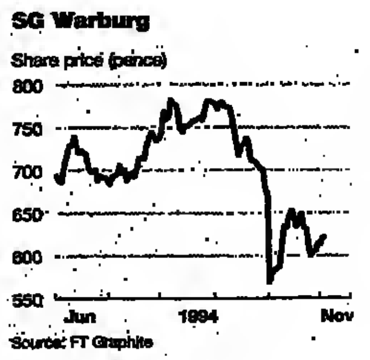
Since the spring launch of Persil Power in the UK and Omo Power on the continent, P&G has ceaselessly exploited the products' flaw. Its manganese catalyst reacts with some dyes, leading to a deterioration in the textiles. Unilever says the problem is now under control with any damage falling outside garments' life span.

Unilever has successfully cordoned off the Power problem in investors' minds, pointing out that the detergent forms only some 1⅓ per cent of its global sales. The research, development and marketing expenditure on Power has been large, however. Sales, sharply curtailed by bad publicity, are a long way from giving a reasonable return on the investment.

Ice cream is a different story. Unilever has 40 per cent of the $9.84bn European market, and an upturn in the third quarter should lift the group's total European profits, which were flat at the interim stage. North American profits should get a similar boost from the acquired Breyers ice cream business.

Personal products, such as soaps and shampoos, and specialty chemicals, will also contribute to the quarter's upturn, as will another sharp rise in profits from Unilever's businesses in developing economies.

On the negative side, interest costs are rising rapidly. Net debt is up and favourable interest rate differentials have reversed. The third quarter dividend, however, is forecast to rise about 7 per cent to 6.5p.



Source: FT Graphite

S G WARBURG

Analysts upbeat on earnings forecast

Investment bank S. G. Warburg on Tuesday will announce earnings for the six months ended September 30. Securities analysts are offering no prizes for guessing the results.

Last month Warburg put out a profits warning, saying it expected to report earnings of £55m ($90.2m) to £65m for the period, down sharply from the £148.8m in the same period in 1993.

Analysts at BZW predict the actual number will be near the higher end of the forecast range. However, those at James Capel estimate thet the actual profits may be higher than forecast.

Even so, analysts said the investment banking division is unlikely to have provided a return on capital of more than one per cent.

Given that Warburg's 75 per cent-owned subsidiary, Mercury Asset Management, has said it expects earnings for the period to be somewhat above the £50.4m it reported last year, the statement suggests the investment bank's profits were modest.

Mr Philip Gibbs, analyst at BZW, notes that the investment bank has several divisions such as custody and sales-aid leasing which alone could account for the difference between the MAM profits and the Warburg full group profits.

Analysts said Warburg's profits picture underscores the merits of maintaining a healthy asset management arm.

OTHER COMPANIES

Siemens in line with beleagured sector

Siemens: Preliminary 1993/94 results from Siemens on Wednesday are expected to reflect the lagging recovery, lower financial earnings and ferocious competition afflicting the electrical and electronics sector. There has been no change in official forecasts of a 10 to 15 per cent fall in net earnings in the year to end September, though profits were down only 6 per cent after nine months.

■ **Veba:** Nine months sales and order data due on Thursday is expected to underpin forecasts of strong improvements. However, the information most keenly awaited is the identity of the group's partner for its growing telecoms business. Mr Ulrich Hartmann, the chairman, has said potential partners must have experience of liberalisation and be several years ahead of Veba.

■ **Japanese steel:** Jepan's steel companies will announce half-year results on Friday. Total recurring losses, before extraordinary items and tax, et the top five steel companies – Nippon Steel, Kawasaki Steel, NKK, Sumitomo Metal Industries and Kobe Steel – are forecast to expand by 7.3 per cent to Y126bn ($1.31bn). Tbe figure is smaller than earbier predictions due to cost cuts and increased crude steel production.

■ **Westpac:** Analysts expect profits of around A$700m ($538m) wben Westpac reports its September year-ends on Tuesday. They also predict around a 10 ceut final dividend, giving sbareholders e total of around 18 cents for the year, compared with 12 ceuts last year. The results are being viewed as a test of the managerial skills of Mr Boh Joss, installed as Westpac's managing director in January 1993. At that time the bank was beset hy problems in its loan portfolio and reported a A$1.5bn net loss for 1991/2.

■ **Cable & Wireless and British Telecom:** Interim pre-tax profits of £550m ($902m) to £580m are forecast for C&W, which at mid-point is about 11 per cent up on last year's £509m. Continued strong growth at Hongkong Telecom, C&W's largest profit earner, will be offset hy slower growth at Mercury, its UK subsidiary, which is fighting rising competition. Analysts predict BT second-quarter pre-tax profits of £750m to £800m, after about £100m in redundancy charges. That compares with £743m last year after redundancy charges, giving underlying profits growtb at mid-point of about 4.5 per cent.

■ **Commercial Union and Royal Insurance:** Two of the UK's largest insurance companies, Commercial Union and Royal Insurance, are expected to report sbarply higher profits for the first nine months of 1994. CU results on Wednesday are forecast to show pre-tax profits of about £285m ($467.4m) compared with £144m last time. RI is expected on Thursday to report pre-tax profits of about £310m, against £113m last time.

Companies in this issue

Ordinary holders may get small part of Queens Moat

By Peggy Hollinger

Ordinary inveators in Queens Moat Houses, the heavily-indebted hotels group, may find their shares are not completely worthless when the protracted £1.3hn deht reetructuring le agreed later this month.

Initial indications are that ordinary shareholders will be left with a slice, albeit small, of the company which is expected to seek a relisting in the new year.

The battle to keep ordinary shareholders in the picture has not been an easy one. There had been strong demand from banks to leave ordinary shareholders with little more than option paper.

However, a Qneens Moat adviser said this weekend that "shareholders may he pleasantly surprised" when they read the details of the refinancing.

These are likely to be published at the end of this month or early next and will include a substantial deht-for-equity swap and extended maturity dates on certain tranchee of debt.

Before that can heppen, however, Queens Moot's 74 lenders will all have to sign on the dotted line. Reeching agreement in principle – a stage which Queens Moat is expected to complete almost any day now – is only the first step.

After that, it is likely to take hetween two and three weeks for the banks to return the official documentation, whicb will allow Queens Moat to present its hard-won refinancing to shareholders.

Investors will then have three weeks in which to peruse the details hefore being asked to vote on the issue at an extraordinary general meeting. If approved, the refinancing can start and the company will then approach the Stock Exchange for a relisting.

All this means that shareholders are not likely to see a refinancing circular before the end of this month, or posslhly early next. A relisting will certainly not be possihle before next year.

Such delays should he familiar to the thousands of investors who have been largely left in the dark for the past year.

In spite of almost immediate support from most of the group's 74 lenders when proposals were first sent out in April this year, the process has been held up by a number of behind-the-ecenes sethacks. These have included disputes with lessors of certain hotels over concessions to be made as part of the package and objections from secondary-deht traders.

Most of the objections have now been resolved. Only Trust Company of the US – which bought Queens Moat debt in the secondary market – and a continental European bank are still holding out. Nevertheless, Queens Moat is confident it will be ahle to complete the refinancing before Christmas.

TeleWest attracts institutions

By Raymond Snoddy

Institutional interest is believed to be considerahle in the flotation of TeleWest, the largest cahle company in the UK and the first to come for a London listing.

The pathfinder document to be puhlished today will suggest a likely value for the company – a joint venture between TCI of Denver, the largest US cable operator, and US West the regional US telephone company – of between £1.6bn and £1.9bn. The company will place about 20 per cent of its ordinary sharee in Loudon and New York in a move designed to raise hetween £300m and £390m in new money.

The flotation will test the market for new media stock in advance of tbe mucb larger British Sky Broadcasting float later in December.

Although satellite television has more than four times the number of subscribers as the cahle networks, many analysts see cable as tbe better long-term bet because it can offer a wide range of services apart from television, including telecommunications and new interactive services.

Mr Fred Vierra, executive vice-president of TCI responsible for international operations will become non-executive chairman of TeleWest.

The non-executive directors will include Sir Gordon Borrie, former director general of Fair Trading and a current non-executive director of the Mirror Group, whicb has recently announced its intention to launch a new television channel for cable networks.

New Tadpole PC will tap greater market

By Alan Cane

Tadpole Technology, market leader in high performance notebook workstations, will announce today tbat it has developed the world's most powerful portable personal computer.

The new machine will be available from the beginning of next year. It will give the Cambridge-based manufacturer access to a vastly greater market than its existing workstations, wbicb are intended chiefly for scientists and engineers.

Workstations are more powerful than PCs and are correspondingly more expensive.

According to Mr George Grey, Tadpole chief executive, the P 1000 is likely to find a ready market among personal computer users with a need for substantial computing power on the move. He gives as examples three-dimensional modelling, multimedia demonstrations, data collection and real-time analysis.

Tadpole's reputation rests on its ability to shoehorn complex computing electronics into notebook sized packages.

Smallest companies outperform the rest

By Bethan Hutton

The very smallest companies are continuing to ontperform all other sectors so far this year, according to Hoare Govett's new smaller company index.

Over the first three quarters of 1994, the HG 1000 index produced a return of 4.4 per cent, or 6.7 per cent for the version exclnding investment trusts, compared with negative returns of between 0.7 and 8.5 per cent for the FT-SE 100, 350, All-ehare, Mid 250 and Smallcap.

The HG 1000 index, which was lannched officially in Angust hnt has been calculated since the start of 1993, covers the bottom 2 per cent by market capitalisation of the UK eqnity market, excluding investment trusts.

When investment trusts within the same market capitalisation limits are inclnded, the trust has 1,000 constituents. The largest companies in the index have market capitalisations of just over £50m; the smallest are under £1m, and more than half are valned at lese than £15m, though in value terms, balf the iodex is accounted for hy companies capitalised at £30m or more.

During 1993, the HG 1000 index produced returns of 60.8 per cent (60.4 per cent excluding investment trusts), compared with returns of less than 30 per cent for the FT-SE 100, 350 and All-Share. Hoare Govett's main smaller companies index, the HGSC which covers the bottom 10 per cent of the market, returned 44 per cent.

When the index was backcalcnlated to 1955, its averege annnal total return was 21.1 per cent a year, against 14.5 per cent for the All-sbare and 18.7 per cent for the HGSC.

A report on the index says it acts as a complement to the FT-SE-A All-Share Index: 99 per cent of the All-Share's constituents are too large to be inclnded in the HG 1000.

However, the report's antbors acknowledge that liquidity can be a problem at this end of the market.

Vultures ready to pick the weakest

Alison Smith on a likely shake-out in the life insurance industry

Vultures seem to be hovering over some UK life insurance companies.

Across the sector, companies have had to cope with the rising costs of meeting increasingly tough regulatory standards, and have had to accept that selling opportunities are being forgone as sales forces spend more time heing trained.

These difficulties come against a hackground of widespread public concern about the possihle mis-selling of personal pensions to people opting or transferring out of occupational schemes, which has depressed new husiness.

A further consequence is that many independent financial advisers are likely to go out of business in the process of compensating the victims of poor pensions advice. This would intensify competition among life insurers to win husiness through the remaining independent advisers.

Even before the Securities and Investments Board, the City's chief regulator, focused attention on the cost of pensions compensation – which one estimate puts at £2bn – a forecast by actuaries Bacon & Woodrow suggested tbat within a decade about 40 life companies would he struggling still to sell life insurance.

Just two days after that forecast was puhlished in late September, the life sector received a further reminder of the fragility of some companies. Sir Mark Weinberg, a leading figure in the UK life industry, announced plans for a new company with £100m capital to acquire life companies, close them to new husiness and manage their existing funds.

Though Sir Mark dislikes the term, the venture is a version of what many in the life sector call "vulture life". It depends on picking up life companies which can no longer survive on their own and living off the husiness they have already acquired.

The plan is a joint venture witb New York Life Worldwide, whose subsidiary, Windsor Life, has already been in this line of husiness in a smaller way.

All this has sharpened interest in which companies are the weakest and what the options availahle to them are.

Mr John Wybrew, chairman of Windsor Life and chief executive of the new company, sees small and medium-sized mutual insurers as most vulnerahle. They are owned by their policyholders, and cannot raise money through shareholders. They could thus suffer from lack of access to capital.

On the other hand, the lack of any institutional shareholder reduces the prospect that a company's management would find itself forced to address its future if it did not want to do so. The other category widely identified as potentially vulnerable is small and medium-sized subsidiaries of overseas parent companies.

Bacon & Woodrow's report showed that the 37 life companies of this type had the highest average expense ratio in the sector, putting them in a weak position if competition took the form of a price war.

Two other characteristics could also be important for this type of company. First, they could be particularly hard hit by the need to compensate victims of poor peneions advice. As "unit-linked" companies, the structure of the policies they sell does not give them the discretion availahle to companies selling "with profits" policies, where significant amounts of money in free reserves have not been strictly allocated to policyholders.

Second, the decision would ultimately be not for the management of the life company but for the parent group, which could be approached directly by a predator and might decide it was time to leave an increasingly competitive UK market.

For companies deciding that they cannot survive alone, there seems broadly two options: sale to a "vulture fund" or takeover by a large insurer whicb would want to keep them as part of a continuing husiness. The expectation is that many managements in that position would prefer to be part of a going concern.

Sir Mark, however, identifies a third option – splitting a life company and selling different elements to different huyers.

"There is no reason why a company shouldn't be unbundled into a sales operation and a closed fund," he says. It offers a chance for the company buying a sales force to improve its distribution capacity quickly, without the costs of recruiting and training.

As an example of demand for direct sales forces alone, he points to Allied Dunbar's payment in March for the right to recruit the 600-plus sales force available when Hill Samuel closed to new life and pensions business.

This approach depends on the sales operations being seen as a separate source of value rather than of expense. Mr Michael Wadsworth, a partner at consulting actuaries Watsons, is not convinced.

"Usually in those circumstances, the distribution is not worth very much, either because the sales operation is not very good quality, or because – in the case of a company selling through independent advisers – it merely replicates the potential purchaser's existing ability to sell," he says.

The gloom over the sector need not translate into a cull of life companies tomorrow: even the smallest have millions of pounds in funds and do not need to decide immediately that they cannot survive. The longer-term trends mean, however, that the vultures will continue to circle.

London United in £23m buy-out

By Graham Bowley

London United, tbe west London bus company, has been bought by its staff in a £22.9m deal, hacked by Montagu Private Equity and 3i, the investment capital group.

It becomes the ninth London hus company to be sold by London Regional Transport this year and almost completes LRT's privatisation programme which so far bas raised more than £211m.

London United, operates 450 buses in south-west London, as well as the Heathrow to central London Airbus. It employs 1,450 staff and had £36.6m turnover in the year to March 1994.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Astra (Sweden)/Merck (US)	Astra Merck (JV)	Pharmaceuticals	£517m	Developing earlier accord
Thomson Corp (Canada)	Information Access Co (US)	Computer services	£293m	Ziff continues disposals
Allied Domecq (UK)	Domecq (Spain)	Drinks	£280.4m	Minority taking put option early
Carter Holt Harvey (New Zealand)	Unit of Bowater (UK)	Paper & packaging	£159m	Bowater Australian disposal
Laidlaw (Canada)	US Pollution Control (US)	Waste management	£142m	Exclusive talks under way
HNV Acquisition (US)	Heron International (UK)	Property	£142m	Bondholders oppose bid
Softbank (Japan)	Unit of Ziff Comms (US)	Business services	£127m	Ziff trade shows disposal
Amcor (Australia)	RIG Rentsch (Switzerland)	Packaging	£62m	Continuing aggressive expansion
Sage (UK)	Saari (France)	Computer services	£18.5m	Second French venture
Caparo Group (UK)	Sharon Speciality Steel (US)	Steel	£16.4m	Buying bulk of assets

COMPANIES AND FINANCE

Ambroveneto claims bid by BCI is doomed to fail

By Andrew Hill in Milan

Banco Ambrosiano Veneto, the Italian bank, claimed at the weekend that the takeover planned by Banca Commerciale Italiana (BCI) and announced only last week was already doomed to fail.

Mr Giovanni Bazoli, Ambroveneto's chairman, confirmed on Saturday that the bank's largest shareholders had agreed to renew and reinforce their defensive pact, which controls a majority of the bank's shares.

BCI wants to buy a 50.1 per cent stake in Ambroveneto for about L1,750bn ($1.1bn), as the rationalisation of the highly fragmented Italian banking sector gathers pace.

Another big Italian bank, Credito Italiano (Credit), is preparing to bid more than L2,000bn for a majority stake in the Bologna-based Credito Romagnolo (Rolo). Neither bank has yet tabled a formal offer.

Mr Bazoli said at the weekend that Ambroveneto would strengthen its links with its two largest shareholders, Crédit Agricole of France, and Crediop, part of San Paolo di Torino, Italy's largest banking group, each of which owns just over 15 per cent of the bank.

Under the terms of the shareholder pact, they will buy most of the 13.52 per cent stake offered to them by a group of small banks from the Veneto region. Another shareholder – Gruppo Banca San Paolo di Brescia – has agreed to maintain its 12.7 per cent stake as part of the pact.

BCI has so far declined to comment on the latest developments, let alone admitted defeat. Ambroveneto's shareholders have also remained silent, but Mr Bazoli believes the bank is now impregnable.

"Integration [with BCI] would have destroyed half the value built up over 12 years of rebuilding Ambroveneto," he said on Saturday.

Alleanza, the Italian insurer which owns 12 per cent of Ambroveneto, has still not decided whether to renew its commitment to the shareholder pact. Alleanza is part of Generali, Italy's biggest insurer. It is seen as an ally of BCI because all three companies are linked to Mediobanca, the influential Milan-based merchant bank.

Meanwhile, Credit has taken on J.P. Morgan, the US investment bank, and Vitale Borghese, an Italian merchant bank, to advise on its bid for Rolo.

The Bologna bank, which is being advised by Morgan Stanley and Goldman Sachs of the US, has resisted the Credit approach and is planning a defensive merger with its local rival, Cassa di Risparmio in Bologna.

ABN Amro expected to buy ailing Polish bank

By Christopher Bobinski in Warsaw

ABN Amro, the Dutch bank is expected to purchase the Interbank, an ailing Polish private bank, by the end of this month, according to officials at the National Bank of Poland (NBP), the central bank.

The successful bid for Interbank, which reported a loss last year and is currently controlled by the NBP, comes against competition from Deutsche Bank, which also wants to establish a wholly-owned subsidiary in Poland.

Both banks have chosen the takeover route for entry into Poland under pressure from the NBP, which has said it will not issue licences to new banks but wants investors to buy into existing banks which would thus consolidate the sector. Chase Manhattan, another unsuccessful applicant, has recently been reminded by Ms Hanna Gronklewicz Waltz, head of the NBP, that this policy remains in place.

Interbank has two branches and losses worth 104bn zlotys ($4.5m) at the middle of this year, while its capital is valued at 167.6bn zlotys.

ABN Amro is reportedly offering to pay 40 per cent over the nominal Interbank share price of 640,000 zlotys to existing shareholders and to invest $40m in the bank.

The Dutch bank is currently a partner in the International Bank in Poland, a joint venture with two local banks, Crédit Lyonnais and Banco Commerciale Italiana.

The NBP recently issued a joint banking licence to Dresdner Bank and BNP in recognition of the former's role in negotiating Poland's recent 49 per cent commercial bank debt reduction deal. Commerzbank of Germany has also just been given a permit to purchase up to 21 per cent of the stock in the Export Development Bank.

The handful of foreign banks currently present in Poland, including Citibank, Creditanstalt, ING and Raiffeisen, were granted licences before 1992, when policy was tightened.

Santander regains Edbro stake

By Tom Burns in Madrid

The fall of Barcelona financier Mr Javier de la Rosa, the former chief Spanish executive of the Kuwait Investment Office, who is being held pending investigations into his business dealings, has prompted the return of Banco Santander as a major shareholder of Ebro, the leading domestic sugar and rice producer.

The development raises questions about the continuation of Grupo Torras, the KIO's investment arm in Spain, as Ebro's biggest shareholder and could prompt a major equity restructuring of Spain's unsettled sugar sector, paving the way for new investment, both domestic and foreign, in the industry.

Santander recovered 9.9 per cent of Ebro through the execution of the stake held in the company by Mr de la Rosa. The banking group had sold the equity to Mr de la Rosa in 1992 and the shareholding had been offered by the financier as collateral for the loan he had received from Santander for the acquisition.

Santander is now the second-largest shareholder of Ebro after the 36.5 stake held in the company by Torras, a purchase that was masterminded by Mr de la Rosa before Torras began losing heavily two years ago and the KIO severed its relationship with the financier.

The return of the shareholding to Santander eases the instability at the company which followed the fall-out between Torras and Mr de la Rosa, and could prompt the removal of its chairman Mr Manuel Guasch, who was brought into the company by Mr de la Rosa.

The banking group, which has a policy of disinvesting from industrial assets, is likely to sell its Ebro stake as soon as it judges the price to be right and the unresolved question is whether the KIO will use this development to dispose of its equity.

"Torras has to take a drastic decision: whether it finally pulls out of Ebro or whether it stays as a stable shareholder and contributes to the growth of the company," said Mr Juan Bastos, of Madrid brokers Ibersecurities.

Last year, Torras indicated its willingness to sell its stake in the food group, which controls 54 per cent of Spain's sugar quota, but the continued presence of Mr de la Rosa as a major Ebro shareholder kept prospective buyers away. At the time Torras was understood to have sounded out Tate & Lyle, Germany's Südzucker and Ferruzzi of Italy.

The potential disposals at Ebro come in the wake of an attempt by Banco Central Hispano (BCH), to sell its controlling stake in General Azucacera, the second-ranked domestic sugar producer, to Saint-Louis of France and the UK's Tate & Lyle. Last week BCH was forced to drop the sale following strong objections from the Spanish agriculture ministry.

The ministry said it opposed BCH's planned sale to protect Spain's sugar quota in the European Union and stressed that any change in Azucacera's equity should be part of a wider restructuring of the big domestic sugar groups.

Bonn to limit Telekom fees

By Andrew Fisher in Frankfurt and Michael Lindemann in Bonn

The German government intends to hold down the costs of the planned DM15bn ($10bn) privatisation of Deutsche Telekom by keeping a tight rein on the fees of banks handling the issue.

Officials involved in the planning for the issue, expected early in 1996, said total fees to banks should be under 3 per cent; this would comprise selling, management and underwriting charges. They said the international trend was to a lower level of fees now the task of assessing investor interest was being made smoother by the book-building process.

In the recent Lufthansa privatisation, which raised some DM1bn, fees were just above 3 per cent. This would mean a fee total of DM450m or so for the Telekom issue – in which 25 per cent of the shares will probably be sold off in the first tranche – compared with the DM400m or less the government is considering.

The choice of banks to head the issue has still to be made. Deutsche Bank and Dresdner Bank are expected to share overall management. Deutsche is likely to handle the international side – it said a week ago it was basing its investment banking activities in London - and Dresdner domestic sales. Several UK, US and Swiss banks are vying for the role of global co-ordinator; one will also advise the government.

The officials said the government was keen that the Telekom issue should help promote the concept of share ownership among the German public and also encourage companies to offer more employee shares. Not enough companies and employee representatives took advantage of tax concessions intended to encourage employee share ownership.

Nor is Germany as equity-conscious as some other countries like the US or UK, they noted. Only 6 per cent of German households own shares and their private financial assets of some DM4,000bn include only 5 per cent in equities and more than 40 per cent in bank deposits.

The government does not want Telekom shares priced especially low just to encourage small investors but it would like banks to reduce or waive (for, say, two years) handling fees for shares deposited with them by private investors.

Group to pay premium for SME stake

By Andrew Hill

The Italo-Swiss consortium that won the contest to buy the Italian state's controlling stake in SME, the supermarket and restaurant group, will pay a premium of more than 20 per cent for the shares.

Iri, the state holding company which controls SME, revealed on Friday that the consortium had offered L4,847.4 for each SME share, against a market price of just under L4,000. That values the whole company – which now owns only the GS supermarkets and Autogrill restaurants business – at L2,200bn ($1.4bn).

The consortium is led by Edizione Holding, the Benetton family's holding company, allied with Mr Leonardo Del Vecchio, who heads the Luxottica spectacles group, Mövenpick, the Swiss hotel and restaurant group, and Crediop, the investment finance subsidiary of the San Paolo di Torino banking group.

The consortium, which must keep GS and Autogrill together for five years, will buy 32 per cent of SME from Iri then launch a public offer for a further 32 per cent. Some of Iri's residual stake will be sold to the consortium and the rest to ordinary investors.

Singapore Press lifts earnings

By Kieran Cooke in Kuala Lumpur

Singapore Press Holdings, the island republic's largest publishing group, has announced pre-tax profits for the year ending August 31 1994 of S$403m (US$269m), a 31 per cent rise on the previous year's figure.

Group turnover was up 16 per cent to S$767.5m, mainly dua to a 17 per cent rise in advertising revenue and a 7 per cent increase in circulation revenue.

Group investment income increased by S$17m to S$56m due to higher interest income and a S$23m profit from the sale of securities.

Among extraordinary items, SPH says it made a S$13m profit from the sale of its stake in Hong Kong's South China Morning Post newspaper.

SPH publishes most of the leading titles in Singapore, including The Straits Times, the Business Times, and the Sunday Times, leading Chinese and Malay newspapers, and a variety of popular magazines.

Domtar returns to the black in third quarter

By Robert Gibbens in Montreal

Domtar, the Canadian forest products, packaging and building materials group which last month replaced its president and chief executive after a boardroom policy dispute, has returned to profitability in its third quarter, with net profit of C$22m or 16 cents a share, against a loss of C$22m or 18 cents a share a year earlier.

Operating profit was C$64m (US$47.2m) against a loss of C$2m, and sales were up 31 per cent to C$573m.

Nine-month net profit was C$41m or 30 cents a share against a loss of C$85m or 69 cents a share. Sales were C$1.5bn, against C$1.25bn.

Domtar, which is 42 per cent owned by two Quebec government agencies, was restructured in 1992-93 after heavy losses due to the long north American recession. Its two newsprint mills were sold in a C$280m public offer last spring.

The pulp and fina paper and packaging divisions posted a 21 per cent third-quarter gain in sales, benefiting from higher product prices and a weaker Canadian dollar. Most production is exported in US dollars. Linerboard prices passed the 1989 peak.

The building materials division, which includes timber, wallboard and decorative panels and has plants in Canada and the US, improved operating results. Plans to sell the wallboard business have been deferred.

"We are now well positioned to make substantial gains during this economic cycle," said Mr Stephen Larson, who has taken over as president.

Domtar also plans capital outlays of about C$350m in the next two years to raise efficiency and meet new pollution standards.

● Investors Group, a financial services subsidiary of Power Corp of Canada, posted a net profit of C$61.4m or 58 cents a share for the nine months to September on revenues of C$414m, up from C$48.7m or 46 cents a share on revenues of C$468m. Sales of mutual funds were firm at C$3.4bn.

Better margins boost NZ group

By Terry Hall in Wellington

Strong growth from its Australian white goods division helped Fisher and Paykel boost after-tax profits by 62 per cent to NZ$19.4m (US$12m) in the six months to September 30. Sales rose by 20.8 per cent to NZ$381m.

Sir Colin Maiden, the chairman, said that the increase was largely due to improved profit margins. Margins also improved in the healthcare and Panasonic divisions.

Overseas sales rose by 35 per cent to NZ$160m, and now represent 44 per cent of trading revenue, up from 39 per cent last year.

Australian white goods sales were up 47 per cent to NZ$104m, representing a growth in market share in all categories.

Increased production also lifted sales to Asia, where the company has developed products suited to the climate. New Zealand sales rose by 11 per cent to NZ$91m, and Panasonic division sales by 8 per cent to NZ$73.8m.

The interim dividend is up by one cent to nine cents.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 4, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	4194.43	2608.15	1711.94	2667.02
Albania	(Lek)	161.16	100.205	65.7726	102.467
Algeria	(Dinar)	65.6881	40.8457	26.8103	41.7677
Andorra	(Fr Fr)	8.4067	5.2273	3.4311	5.3453
	(Sp Peseta)	204.324	127.051	83.3941	129.919
Angola	(New Kwanza)	226372.2	140761	92393	143939
Antigua	(E Carr $)	4.3511	2.7055	1.7758	2.7666
Argentina	(Peso)	1.6078	0.9997	0.6562	1.0223
Aruba	(Florin)	2.8946	1.7936	1.1773	1.8341
Australia	(Aus $)	2.1489	1.3362	0.877	1.3663
Austria	(Schilling)	17.2507	10.7267	7.0408	10.9688
Azores	(Port Escudo)	250.389	155.695	102.108	159.21
Bahamas	(Bahama $)	1.6082	1	0.6563	1.0225
Bahrain	(Dinar)	0.6063	0.377	0.2474	0.3855
Balearic Is	(Sp Peseta)	204.324	127.051	83.3941	129.919
Bangladesh	(Taka)	63.5220	39.4968	25.9262	40.3904
Barbados	(Barb $)	3.2412	2.0154	1.3226	2.0609
Belgium	(Belg Fr)	50.4027	31.341	20.5716	32.0485
Belize	(B $)	3.2230	2.0041	1.3154	2.0493
Benin	(CFA Fr)	840.670	522.74	343.117	534.539
Bermuda	(Bermudian $)	1.6082	1	0.6563	1.0225
Bhutan	(Ngultrum)	50.5040	31.404	20.613	32.1129
Bolivia	(Boliviano)	7.5423	4.6899	3.0783	4.7957
Botswana	(Pula)	4.2986	2.6667	1.7503	2.7269
Brazil	(Real)	1.3573	0.8439	0.5539	0.863
Brunei	(Brunei $)	2.3656	1.4709	0.9655	1.5041
Bulgaria	(Lev)	104.657	65.0771	42.7153	66.546
Burkina Faso	(CFA Fr)	840.670	522.74	343.117	534.539
Burma	(Kyat)	9.2726	5.7658	3.7845	5.8958
Burundi	(Burundi Fr)	387.900	241.201	158.32	246.646
Cambodia	(Riel)	4173.79	2595.32	1703.52	2653.9
Cameroon	(CFA Fr)	840.670	522.74	343.117	534.539
Canada	(Canadian $)	2.1819	1.3567	0.8905	1.3873
Canary Is	(Sp Peseta)	204.324	127.051	83.3941	129.919
Cp. Verde	(CV Escudo)	133.706	83.1401	54.5716	85.0166
Cayman Is	(CI $)	1.3346	0.8298	0.5447	0.8486
Cent.Afr. Rep	(CFA Fr)	840.670	522.74	343.117	534.539
Chad	(CFA Fr)	840.670	522.74	343.117	534.539
Chile	(Chilean Peso)	662.397	411.887	270.355	421.185
China	(Yuan)	13.7076	8.5235	5.5947	8.7159
Colombia	(Col Peso)	1336.37	830.973	545.435	849.73
CIS ‡	(Rouble)	1.0263o	0.6381	0.4188	0.6525
		4975.75m	3093.99	2030.84	3163.83
Comoros	(Fr)	630.938	392.326	257.515	401.181
Congo (Brazz)	(CFA Fr)	840.670	522.74	343.117	534.539
Costa Rica	(Colon)	257.050	159.837	104.914	163.445
Côte d'Ivoire	(CFA Fr)	840.670	522.74	343.117	534.539
Croatia	(Kuna)	8.9574	5.5698	3.6558	5.6955
Cuba	(Cuban Peso)	1.6116	1.002	0.6577	1.0246
Cyprus	(Cyprus £)	0.7514	0.4672	0.3066	0.4777
Czech Rep.	(Koruna)	44.4940	27.6669	18.16	28.2914
Denmark	(Danish Krone)	9.6067	5.9735	3.9209	6.1084
Djibouti Rep	(Djib Fr)	286.396	178.085	116.892	182.106
Dominica	(E Carib $)	4.3511	2.7055	1.7758	2.7666
Dominican Rep	(D Peso)	22.2870	13.8583	9.0963	14.1711
Ecuador	(Sucre)	3662.13o	2277.16	1494.69	2328.55
		3256.77m	2025.1	1329.24	2070.81
Egypt	(Egyptian £)	5.4723	3.4027	2.2335	3.4795
El Salvador	(Colon)	14.1006	8.7679	5.7551	8.9658
Equat'l Guinea	(CFA Fr)	840.670	522.74	343.117	534.539
Estonia	(Kroon)	19.6266	12.2054	8.0114	12.4808
Ethiopia	(Ethiopian Birr)	8.7021	5.411	3.5517	5.5332
Falkland Is	(Falk £)	1.00	0.6218	0.4081	0.6358
Faroe Is	(Danish Krone)	9.6067	5.9735	3.9209	6.1084
Fiji Is	(Fiji $)	2.3006	1.4305	0.9389	1.4628
Finland	(Markka)	7.5422	4.6898	3.0783	4.7957
France	(Fr)	8.4067	5.2273	3.4311	5.3453
Fr. Cty/Africa	(CFA Fr)	840.670	522.74	343.117	534.539
Fr. Guiana	(Local Fr)	8.4067	5.2273	3.4311	5.3453
Fr. Pacific Is	(CFP Fr)	152.965	95.1094	62.428	97.2562
Gabon	(CFA Fr)	840.670	522.74	343.117	534.539

		£ STG	US $	D-MARK	YEN (X 100)
Gambia	(Dalasi)	15.6316	9.7199	8.3799	9.9393
Germany	(D-Mark)	2.4501	1.5236	1	1.5578
Ghana	(Cedi)	1651.76	1027.1	674.172	1050.29
Gibraltar	(Gib £)	1.00	0.6218	0.4081	0.6358
Greece	(Drachma)	377.835	234.943	154.212	240.246
Greenland	(Danish Krone)	9.6067	5.9735	3.9209	6.1084
Grenada	(E Carr $)	4.3511	2.7055	1.7758	2.7666
Guadeloupe	(Local Fr)	8.4067	5.2273	3.4311	5.3453
Guam	(US $)	1.6082	1	0.6563	1.0225
Guatemala	(Quetzal)	9.2811	5.7711	3.788	5.9013
Guinea	(Fr)	1576.63	879.746	643.088	1001.88
Guinea-Bissau	(Peso)	20077.7	12484.6	8194.65	12766.4
Guyana	(Guyanese $)	227.705	141.59	92.937	144.786
Haiti	(Gourde)	30.6185	19.0389	12.4968	19.4687
Honduras	(Lempira)	14.3748	8.9383	5.8669	9.14
Hong Kong	(HK $)	12.4314	7.73	5.0736	7.9044
Hungary	(Forint)	174.131	108.277	71.0709	110.721
Iceland	(Icelandic Krona)	107.390	66.7765	43.8308	68.2838
India	(Indian Rupee)	50.5040	31.404	20.613	32.1129
Indonesia	(Rupiah)	3493.14	2172.08	1425.71	2221.11
Iran	(Rial)	2863.60	1780.56	1168.73	1820.75
Iraq	(Iraqi Dinar)	0.8863	0.5511	0.3617	0.5635
Irish Rep	(Punt)	1.0140	0.6305	0.4138	0.6447
Israel	(Shekel)	4.8464	3.0135	1.978	3.0815
Italy	(Lira)	2518.94	1563.2	1026.06	1598.49
Jamaica	(Jamaican $)	52.3736	32.5667	21.3761	33.3018
Japan	(Yen)	157.277	97.7969	64.192	100.004
Jordan	(Jordanian Dinar)	1.1129	0.692	0.4542	0.7076
Kenya	(Kenya Shilling)	65.5881	40.7835	26.7695	41.7041
Kiribati	(Australian $)	2.1489	1.3362	0.877	1.3663
Korea North	(Won)	3.4647	2.1543	1.4141	2.203
Korea South	(Won)	1281.76	797.028	523.154	815.019
Kuwait	(Kuwaiti Dinar)	0.4796	0.2983	0.1958	0.305
Laos	(New Kip)	1160.28	721.477	473.564	737.763
Latvia	(Lats)	0.8866	0.5368	0.3536	0.551
Lebanon	(Lebanese £)	2669.53	1659.95	1089.56	1697.42
Lesotho	(Maluti)	5.6563	3.5171	2.3085	3.5965
Liberia	(Liberian $)	1.6082	1	0.6563	1.0225
Libya	(Libyan Dinar)	0.4865	0.3025	0.1985	0.3093
Liechtenstein	(Swiss Fr)	2.0504	1.2749	0.8368	1.3037
Lithuania	(Litas)	6.4660	4.0206	2.639	4.1114
Luxembourg	(Lux Fr)	50.4027	31.341	20.5716	32.0485
Macao	(Pataca)	12.8672	8.0009	5.2517	8.1815
Madagascar	(MG Fr)	5656.37	3517.21	2308.63	3596.6
Madeira	(Port Escudo)	250.389	155.695	102.108	159.21
Malawi	(Kwacha)	25.0055	15.5487	10.2059	15.8997
Malaysia	(Ringgit)	4.1225	2.5634	1.6825	2.6212
Maldive Is	(Rufiya)	19.2413	11.9644	7.8532	12.2345
Mali Rep	(CFA Fr)	840.670	522.74	343.117	534.539
Malta	(Maltese Lira)	0.5906	0.361	0.2369	0.3691
Martinique	(Local Fr)	8.4067	5.2273	3.4311	5.3453
Mauritania	(Ouguiya)	203.908	126.79	83.2223	129.652
Mauritius	(Maur Rupee)	28.2979	17.596	11.5496	17.9931
Mexico	(Mexican Peso)	5.5138	3.4284	2.2503	3.5058
Miquelon	(Local Fr)	8.4067	5.2273	3.4311	5.3453
Monaco	(French Fr)	8.4067	5.2273	3.4311	5.3453
Mongolia	(Tugrik)	644.600	400.821	263.091	409.868
Montserrat	(E Carr $)	4.3511	2.7055	1.7758	2.7666
Morocco	(Dirham)	14.0386	8.7293	5.7298	8.9264
Mozambique	(Metical)	10005.6	6221.81	4083.75	6362.05
Namibia	(S A Rand)	5.6563	3.5171	2.3085	3.5965
Nauru Is	(Australian $)	2.1489	1.3362	0.877	1.3663
Nepal	(Nepalese Rupee)	79.5275	49.4512	32.4588	50.5674
Netherlands	(Guilder)	2.7500	1.7099	1.1224	1.7485
N'nd Antilles	(A/Guilder)	2.8946	1.7996	1.1773	1.8341
New Zealand	(NZ $)	2.6016	1.6178	1.0619	1.6543
Nicaragua	(Gold Cordoba)	11.5867	7.2047	4.729	7.3673
Niger Rep	(CFA Fr)	840.670	522.74	343.117	534.539
Nigeria	(Naira)	35.2024	21.8893	14.3677	22.3834
Norway	(Nor. Krone)	10.6810	6.6478	4.3634	6.7978
Oman	(Rial Omani)	0.6192	0.385	0.2527	0.3937

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	49.2406	30.6184	20.0973	31.3095
Panama	(Balboa)	1.6082	1	0.6563	1.0225
Papua New Guinea	(Kina)	1.8294	1.1375	0.7466	1.1632
Paraguay	(Guarani)	3090.05	1921.43	1261.19	1964.81
Peru	(New Sol)	3.5629	2.2154	1.4541	2.2654
Philippines	(Peso)	39.5805	24.5992	16.1464	25.1545
Pitcairn Is	(£ Sterling)	1.00	0.6218	0.4081	0.6358
	(NZ $)	2.6018	1.6178	1.0619	1.6543
Poland	(Zloty)	37437.7	23279.3	15280.1	23804.7
Portugal	(Escudo)	250.389	155.695	102.195	159.21
Puerto Rico	(US $)	1.6082	1	0.6563	1.0225
Qatar	(Riyal)	5.8659	3.6474	2.3941	3.7298
Reunion Is. de la	(F Fr)	8.4067	5.2273	3.4311	5.3453
Romania	(Leu)	2860.00	1778.39	1167.3	1818.53
Rwanda	(Fr)	216.2021	134.436	88.2412	137.471
St Christopher	(E Carr $)	4.3511	2.7055	1.7758	2.7666
St Helena	(£)	1.00	0.6218	0.4081	0.6358
St Lucia	(E Carr $)	4.3511	2.7055	1.7758	2.7666
St Pierre	(French Fr)	8.4067	5.2273	3.4311	5.3453
St Vincent	(E Carr $)	4.3511	2.7055	1.7758	2.7666
San Marino	(Italian Lira)	2513.94	1563.2	1026.06	1598.49
Sao Tome	(Dobra)	1334.92	830.071	544.843	848.806
Saudi Arabia	(Riyal)	6.0325	3.751	2.4621	3.8357
Senegal	(CFA Fr)	840.670	522.74	343.117	534.539
Seychelles	(Rupee)	7.8238	4.8649	3.1932	4.9747
Sierra Leone	(Leone)	966.900	601.231	394.637	614.803
Singapore	($)	2.3656	1.4709	0.9655	1.5041
Slovakia	(Koruna)	49.930	31.0471	20.3787	31.7479
Slovenia	(Tolar)	194.041	120.657	79.1971	123.381
Solomon Is	($)	5.2595	3.2704	2.1466	3.3442
Somali Rep	(Shilling)	4222.13	2625.38	1723.25	2684.64
South Africa	(Rand)	5.6563c	3.5171	2.3085	3.5965
		6.5532g	4.0748	2.6746	4.1668
Spain	(Peseta)	204.324	127.051	83.3941	129.919
Spanish Ports in N Africa	(Sp Peseta)	204.324	127.051	83.3941	129.919
Sri Lanka	(Rupee)	78.7753	48.9835	32.1518	50.0892
Sudan Rep	(Dinar)	50.1177	31.1636	20.4553	31.8672
Surinam	(Guilder)	460.164	286.136	187.814	292.595
Swaziland	(Lilangeni)	5.6563	3.5171	2.3085	3.5965
Sweden	(Krona)	11.8529	7.3702	4.8377	7.5366
Switzerland	(Fr)	2.0504	1.2749	0.8368	1.3037
Syria	(£)	31.8271	19.7905	12.9901	20.2372
Taiwan	($)	41.8823	26.0429	17.0941	26.6308
Tanzania	(Shilling)	866.987	539.104	353.858	551.273
Thailand	(Baht)	40.1317	24.9542	16.3794	25.5175
Togo Rep	(CFA Fr)	840.670	522.74	343.117	534.538
Tonga Is	(Pa'anga)	2.1489	1.3362	0.877	1.3663
Trinidad/Tobago	($)	9.0002	5.5964	3.6734	5.7227
Tunisia	(Dinar)	1.5671	0.9744	0.6396	0.9964
Turkey	(Lira)	58408.0	36318.9	23839	37138.7
Turks & Caicos	(US $)	1.6082	1	0.6563	1.0225
Tuvalu	(Australian $)	2.1489	1.3362	0.877	1.3663
Uganda	(New Shilling)	1477.75	918.684	603.139	939.626
Ukraine	(Karbovanets)	126683.9	[illegible]	51697.4	80539.1
U A E	(Dirham)	5.9182	3.68	2.4154	3.763
United Kingdom	(£)	1.00	0.6218	0.4081	0.6358
United States	(US $)	1.6082	1	0.6563	1.0225
Uruguay	(Peso Uruguayo)	8.7988	5.4712	3.5912	5.5947
Vanuatu	(Vatu)	180.917	112.497	73.8406	115.036
Vatican	(Lira)	2513.94	1563.2	1026.06	1598.49
Venezuela	(Bolivar)	273.171	169.865	111.496	173.699
Vietnam	(Dong)	17832.9	11088.7	7278.44	11339
Virgin Is-British	(US $)	1.6082	1	0.6563	1.0225
Virgin Is-US	(US $)	1.6082	1	0.6563	1.0225
Western Samoa	(Tala)	4.0829	2.5388	1.6664	2.5961
Yemen (Rep of)	(Rial)	88.30(3)	54.9081	36.0393	56.1454
Yemen (Rep of)	(Dinar)	0.6884(3)	0.428	0.2809	0.4377
Yugoslavia	(New Dinar (1))				
Zaire Rep	(Zaire)	4140.00	2574.31	1689.73	2632.42
Zambia	(Kwacha)	1079.71	671.378	440.68	686.533
Zimbabwe	($)	13.4560	8.3671	5.492	8.5559

Special Drawing Rights November 3, 1994 United Kingdom £0.914005 United States $1.48215 Germany DM2.24486 Japan Y N/A European Currency Unit Rates November 4, 1994 United Kingdom £0.781459 United States $1.25776 Germany DM1.91519 Japan Y123.097

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; ‡ CIS applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Rwandan rate for 31.3.94 (3) Yemeni rates for 29.4.94. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/6

Friday, November 4, 1994.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Bronwen Maddox

Prodding the commodity bubble

For most of this year, commodities have looked like a one-way bet. Aluminium and copper, the two most heavily-traded metals, have jumped by 70 per cent in the past 12 months, and cocoa, coffee and orange juice, like many soft commodities, have also shown sharp gains.

For all those investors who get vertigo at the size of the rises there have been others to argue that, judging by commodities' behaviour in previous economic recoveries, further large gains are still on the cards.

On the back of this enthusiasm, investment and broking houses have rushed in the past few months to put together commodities indices, as well as specialised funds to make access to the markets easier.

That marks a sea change from the 1980s, when most investment houses took a distinctly haughty stance towards non-income yielding investments, and towards the commodity markets in particular. Familiarity with a wider range of zero-coupon instruments and zero-dividend shares has bred tolerance.

However, as commodities prices have continued to rise in the past few weeks, some who were previously bullish have begun asking whether speculative activity is now driving the prices above levels justifiable on analysis of demand and supply alone. It is the right point at which to ask that question; although evidence of speculative participation is at the moment anecdotal, it does suggest that such trades are an increasingly important element.

The bullish case is still vigorously espoused, nonetheless. Goldman Sachs, the broker, and one of the loudest advocates of commodities' attractions, has been urging large private pension funds to keep 5 per cent of their global portfolios in commodities, a high level by traditional standards.

Goldman bases its argument on a projection of steadily rising worldwide demand as European and Japanese economies gather steam. It has on its side indications such as the shortages of aluminium already reported by industrialised countries. It could also point out that demand for copper and nickel rose by 7 per cent in the first half of 1994 compared with the corresponding period in 1993.

The more specialised the material's use, the more dramatic the effect of such increases in demand; the price of palladium has doubled in the past year simply because of booming world-wide demand for mobile telephones and personal computers.

The current proponents of commodities also argue that not much capacity has been added in recent years in commodity-producing industries. They argue instead that the fall in eastern European production has contracted supply.

It is unclear yet how many houses are following the bulls' advice. However, analysts are starting to say, with more conviction than a few months ago, that the price of commodities, both metals and soft, has risen higher than can be explained by levels of demand and supply.

For a start, market traders and analysts estimate that banks and investment funds have put $16bn into metals so far this year. They also reckon that banks control some 75 per cent of the London Metal Exchange stocks.

There are also signs that investors are losing their discrimination between commodities. The zinc price, for instance, has followed that of the other metals upwards despite European overcapacity.

One weakness of the bulls' argument is that it does not recognise the rapidity with which patterns of supply and demand can change in response to the price rises.

Although it is true that supplies of metals have not increased greatly in the past few years, they could now do so, enticed by higher prices, locked in by manufacturers through the futures markets. Meanwhile, traders acknowledge that the price rises could cause a permanent drop in demand, if substitutes are found for raw materials, or if investment to raise efficiency is stepped up.

But the central weakness is that investors' use of commodities as an escape route from bond and equity markets troubled by inflationary fears is misguided. From one perspective, this is a sound bet, as commodity price rises may eventually feed through into retail prices.

If this does happen, and inflationary pressures do emerge again, commodities could fare well initially. But if interest rates rose in response, investors would be likely to desert commodities in favour of interest-bearing investments.

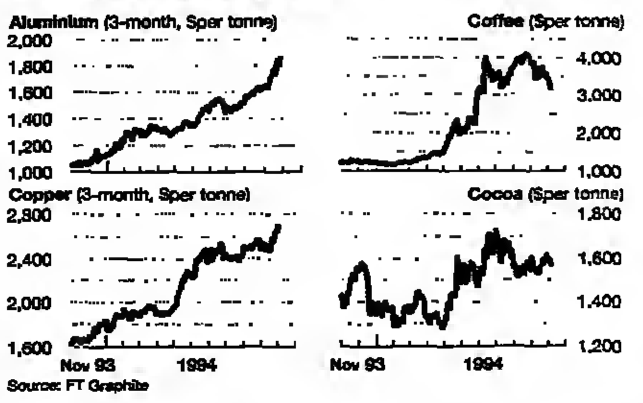
On the other hand if manufacturers fail to pass on the increases in raw material costs to consumers, commodity producers will eventually find themselves restrained in their ability to charge more.

In recent sets of UK data, the sharpest price increases in manufacturing output were reported in sectors with greatest exposure to world commodity prices, such as pulp and paper, metals, rubbers and chemicals. However there are also signs that manufacturers have had to absorb much of the increases in raw material prices without passing them on, and that margins are being squeezed.

In the past year, investors' enthusiasm for commodities has looked like a rare example of perfect timing. But increasingly, one of the main props for commodities prices is simply inflationary fears, fuelled partly by the rising cost of commodities themselves. That is a fragile argument on which to be resting even a small slice of a portfolio.

There are enough powerful advocates of commodities' attractions at the moment, and demand for raw materials is growing fast enough to give investors an opportunity to begin to unwind positions which they have built up this year. It is a chance they should consider taking.

Bubbling commodities



Source: FT Graphite

Total return in local currency to 3/11/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.09	0.04	0.09	0.10	0.16	0.09
Month	0.42	0.19	0.41	0.45	0.69	0.46
Year	3.69	2.18	5.88	8.31	8.31	5.44
Bonds 3-5 year						
Week	-0.25	0.32	0.10	0.07	-0.08	0.56
Month	-0.33	-0.02	0.80	0.31	1.09	1.41
Year	-2.59	-0.71	0.64	-0.68	1.41	-0.03
Bonds 7-10 year						
Week	-0.35	0.53	-0.03	-0.09	-0.89	0.49
Month	-0.86	0.01	0.97	-0.33	0.44	1.87
Year	-7.14	-1.92	-4.50	-7.47	-5.85	-4.05
Equities						
Week	0.5	0.0	1.8	2.7	2.8	2.4
Month	1.7	-0.5	1.5	2.8	-5.0	4.2
Year	4.3	-2.9	-2.8	-7.5	10.8	2.2

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited

COMMODITIES Richard [illegible]

LME studies US warehousing

The London Metal Exchange on Wednesday holds its first management board meeting since its move a week ago to new, bigger premises in Fenchurch Street. Members will be paying particular attention to see if there is any development on plans to extend the exchange's warehouse coverage to the US.

This issue has been brought to the fore in recent weeks by a tightening squeeze on copper supplies that has distorted the price structure of that metal's contract at the LME.

Exchange warehouse stocks of copper have fallen to the equivalent of five and a half weeks' consumption – an uncomfortably low level, according to some analysts. But some suggest that that is not the whole reason for the growing "backwardation" (price premium for nearby delivery over forward positions) in the market. An additional problem, they say, is that most of the LME stockpile is in Europe, while most of the short-term demand is in the US.

In normal circumstances forward positions in the metals markets are at a premium to nearbys (as they are at the moment for all other LME contracts), reflecting the costs of holding physical metal – lost interest, storage, insurance etc. But tight availability of supplies for nearby delivery can reverse this position; and inadequate warehouse coverage can make matters worse.

It has also been suggested that Wednesday's board meeting could discuss extending warehousing in south-east Asia outside Singapore. Metal Bulletin magazine said this week that there had been talk emanating from China that Shanghai could be a candidate.

● On Thursday the International Primary Aluminium Institute is to issue its assessment of western world stocks of the metal in September. LME traders will be anxious to see evidence of a continuation of the drawdown, following the multilateral production-cutting agreement reached earlier this year, that has helped to lift prices to four-year highs.

Economic Eye / Martin Wolf

China as next superpower?

Is China the next economic superpower and, if so, how soon will it achieve that status? Those who say it is, or very soon will be, point to calculations of the kind shown in the chart.

Among them is William Overholt in an important recent book.* Citing an estimate of $2,500 per head for Chinese real income put forward by Larry Summers, when chief economist of the World Bank, he argues that "if Summers' calculation is correct, China's economy will pass the US economy in sheer size within 11 years".

Yet even if that were true, China would not have the most powerful economy in the world. To see this, it is necessary to understand what such estimates actually mean.

Consider India, for which more reliable calculations exist than for China. At market exchange rates, its GNP per head was $310 in 1992, this being only 1.3 per cent of the US level. But the average Indian did not survive on a real income 98.7 per cent smaller, since so much of what Indians consume is far cheaper. At common international prices (or purchasing power parity – PPP), Indian income per head was $1,210, 5 per cent of the US level.

There are three main reasons why internal relative prices differ across countries: protection at the border; internal taxation and subsidisation; and differences in costs of labour (and land). In the case of comparisons between developing and more advanced countries, the last is much the most important.

Market exchange rates equate only the prices of tradeable goods and services across frontiers (net of protection). Generally, however, services are both less tradeable and more labour-intensive than goods. A resident of Los Angeles could save a small fortune by buying haircuts in Madras. She cannot do so, however, because transport costs are too high. Accordingly, GNP per head of poor countries at PPP is far higher than it is at market prices.

The Bank's estimate of China's national income per head in 1992, at market exchange rates, is $470, while its guess-estimate of the country's GNP per head at PPP is $1,910, the relationship between the two being roughly the same as for India. (For a more detailed analysis of Chinese wealth and economic performance, see the article on page 4 of this morning's China survey.)

Because primary data have not been collected in China, the PPP number is derived from a cross-country statistical relationship linking GNPs at market exchange rates to those at PPP. Other estimates of China's GNP per head at PPP in the early 1990s vary between $1,000 (which would make the economy a little larger than that of France) and $3,000 (which would make it even larger than Japan's).

The uncertainty is huge. But concentrate on the Bank estimates. China's 1992 GNP at market exchange rates was only $506bn, smaller than Spain's and eighth largest in the world, while its GNP at PPP is estimated at $2,220bn. What has changed? The answer is that China has tens of millions of tax inspectors, teachers, builders, hairdressers, policemen, judges, doctors and so forth, all of whom are paid a pittance. Adjust their wages to international prices and the size of China's economy explodes.

The economy does not just become far bigger at international prices, its structure changes. On the plausible assumption that spending on manufactures at market prices is roughly the same as at international prices, manufacturing would be only 10 per cent of China's GNP at PPP, down from 40 per cent at market prices. It is obvious, however, that China is not made more powerful by having millions and millions of cheap teachers, hairdressers and so forth. This merely means the country is poor and populous.

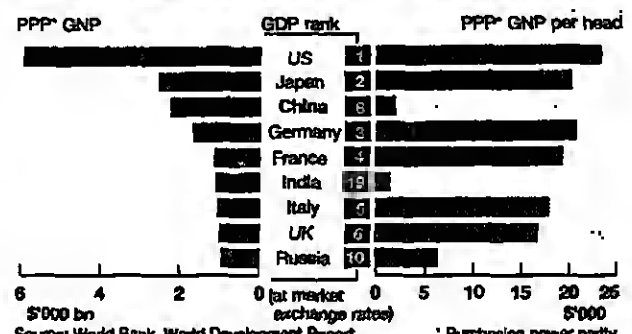
Because the weight of services is much larger in GNP at PPP, growth rates will also be lower. The reason is that manufacturing has been the fastest growing sector of the Chinese economy. If it is given a smaller weight, the growth of the economy will also be reduced.

Yet there is one respect in which the PPP numbers do say something about economic size. Convergence of GNP per head between China and more advanced economies will be faster than projections of recent real rates of growth from GNP at market prices would suggest. The reason is that real wages will rise as the economy grows. Those increases in real wages will show up as an appreciation of the real exchange rate. The explanation is that productivity growth in tradeable goods will be faster than in services. At an exchange rate that keeps international prices of tradeable goods roughly in line, those of non-tradeable services will rise. The effect will be particularly large in the case of China, because its economy is likely to grow particularly quickly.

Nevertheless, purchasing power adjustments of GNP are relevant for estimates of economic welfare, but not of a country's international economic influence. That depends on the scale of its participation in trade and capital flows, its technological sophistication and the size and diversity of its manufacturing, on all of which the PPP adjustment is at the least misleading. The question is when China might become more powerful than the US in such respects. This is a vital matter for the future of the world, to be addressed two weeks from today.

* *William H Overholt, China: the Next Economic Superpower (London: Weidenfeld and Nicholson, 1993).*

How economies rank by purchasing power



Source: World Bank, World Development Report
* Purchasing power parity

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 4 1994 US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY NOVEMBER 3 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	170.96	2.5	157.80	105.69	135.41	151.94	-7.1	3.87	170.23	156.02	105.03	134.04	152.43	189.15	149.36	160.43
Austria (16)	183.96	-0.6	169.58	113.72	145.70	145.71	-12.5	1.10	184.43	169.04	113.78	145.22	145.22	198.88	157.46	175.84
Belgium (35)	168.78	3.8	155.59	104.34	133.68	130.46	-10.0	4.23	169.29	155.16	104.45	133.31	129.86	177.04	150.60	152.51
Brazil (28)	175.18	-	161.47	108.28	138.73	272.12	-	0.76	170.66	158.41	105.29	134.38	265.28	-	-	-
Canada (103)	132.47	-2.5	122.12	81.66	104.92	130.15	0.0	2.62	133.39	122.25	82.30	105.03	131.27	145.31	120.54	133.44
Denmark (33)	247.61	0.2	228.27	153.08	196.12	201.18	-11.9	1.48	249.91	229.05	154.15	196.78	201.70	275.79	230.27	241.06
Finland (24)	194.37	57.6	179.18	120.18	153.95	191.31	27.8	0.74	197.00	180.56	121.54	155.12	181.98	201.41	118.85	127.71
France (101)	170.92	-2.9	157.57	105.66	135.38	140.15	-14.0	3.09	170.26	156.05	105.04	134.06	138.74	185.37	159.34	164.42
Germany (58)	143.58	2.4	132.35	88.75	113.71	113.71	-10.2	1.82	143.35	131.40	88.45	112.88	112.88	150.40	128.37	132.78
Hong Kong (56)	386.57	-21.0	356.37	238.98	306.19	383.66	-21.0	3.13	385.77	353.57	238.01	303.77	382.81	508.56	341.29	369.84
Ireland (14)	207.54	12.1	191.33	128.31	164.39	184.38	-0.4	3.43	208.25	190.87	128.49	163.99	183.34	218.80	172.05	177.89
Italy (59)	77.61	13.2	71.56	47.98	61.47	90.61	3.3	1.73	77.85	71.35	48.03	61.30	90.38	97.78	57.88	66.28
Japan (468)	160.92	23.7	148.35	99.48	127.46	99.48	8.4	0.77	161.09	147.64	99.39	126.85	99.39	170.10	124.54	149.13
Malaysia (97)	526.76	-10.9	485.61	325.65	417.23	520.07	-15.3	1.81	521.60	478.07	321.82	410.73	514.21	621.63	430.71	487.72
Mexico (18)	2120.03	-11.2	1954.39	1310.51	1579.15	7947.04	-2.0	1.29	2082.55	1908.72	1284.88	1639.64	7823.51	2647.08	1698.28	1824.66
Netherland (19)	218.37	9.7	201.31	135.00	172.96	170.44	-3.4	3.39	215.13	200.85	135.20	172.56	169.90	223.30	167.01	197.07
New Zealand (14)	77.15	13.6	71.12	47.69	61.10	66.28	2.8	3.67	77.20	70.75	47.63	60.79	66.57	77.58	59.22	68.15
Norway (23)	193.69	11.2	164.08	123.45	158.16	180.19	-1.7	1.84	200.29	183.57	123.57	157.71	179.63	211.74	165.52	181.89
Singapore (44)	396.20	7.8	365.25	244.93	313.81	268.57	-1.4	1.57	394.58	361.65	243.45	310.71	267.06	401.38	294.88	318.67
South Africa (59)	338.34	26.6	311.80	209.16	267.98	301.35	20.3	2.12	334.42	306.50	206.33	263.33	239.32	342.00	202.72	213.43
Spain (38)	141.00	1.2	129.98	87.17	111.68	135.72	-10.1	4.30	141.25	129.45	87.15	111.22	135.07	155.79	128.68	141.37
Sweden (36)	229.71	17.0	211.77	142.01	161.95	250.64	3.4	1.60	231.54	212.21	142.85	182.32	251.87	242.68	175.83	202.42
Switzerland (47)	164.23	2.5	151.40	101.53	130.08	129.81	-11.9	1.87	164.72	150.97	101.63	129.70	129.43	176.56	143.64	145.06
Thailand (46)	180.77	-	166.09	111.38	142.70	174.50	-	1.87	180.58	165.51	111.42	142.20	174.73	-	-	-
United Kingdom (204)	202.37	-1.3	186.58	125.11	160.29	186.58	-8.2	4.09	203.83	186.82	125.76	160.51	185.82	214.96	181.11	188.86
USA (515)	189.03	-0.5	174.26	116.86	149.72	189.03	-0.5	2.89	181.14	175.19	117.83	150.51	191.14	196.04	178.95	186.14
Americas (664)	176.92	-	163.09	109.37	140.13	147.01	-	2.82	178.65	163.74	110.22	140.88	148.48	-	-	-
Europe (707)	173.12	2.8	159.59	107.02	137.12	150.74	-8.7	3.10	173.71	159.21	107.18	136.79	150.35	178.58	154.79	159.5[illegible]
Nordic (116)	223.77	18.1	206.28	138.33	177.23	207.48	2.8	1.43	225.77	206.92	139.29	177.77	208.15	233.91	173.19	192.69
Pacific Basin (793)	170.25	17.4	156.95	105.25	134.85	110.20	4.2	1.10	170.28	156.07	105.06	134.08	110.07	176.86	134.79	157.67
Euro-Pacific (1500)	171.34	10.5	157.95	105.92	135.71	126.40	-1.6	1.95	171.61	157.28	105.88	135.13	126.17	175.14	143.88	158.36
North America (618)	185.52	-0.5	171.03	114.69	146.84	184.98	-0.4	2.88	187.56	171.80	115.72	147.89	187.03	192.73	175.67	182.87
Europe Ex. UK (503)	153.83	4.3	141.81	95.10	121.84	129.78	-6.3	2.50	154.01	141.18	95.02	121.27	129.14	158.12	135.94	140.72
Pacific Ex. Japan (325)	260.92	-9.0	240.54	161.31	206.67	231.12	-13.4	2.76	259.85	238.15	160.32	204.62	230.52	296.21	232.54	240.14
World Ex. US (1708)	173.13	10.1	159.61	107.03	137.13	130.11	-1.2	1.95	173.30	158.83	106.92	136.46	128.85	175.85	145.58	159.17
World Ex. UK (2019)	174.97	8.8	161.30	108.17	138.56	144.47	-0.1	2.06	175.70	161.04	108.40	138.35	144.66	178.59	156.96	165.07
World Ex. Japan (1755)	138.18	0.2	173.47	116.33	149.04	176.99	-4.3	2.90	189.29	173.49	116.79	149.05	177.69	195.20	176.34	176.57
The World Index (2223)	177.38	8.2	163.52	109.66	140.49	145.29	-1.0	2.28	178.18	163.31	109.93	140.30	146.66	180.80	158.85	167.18

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local).

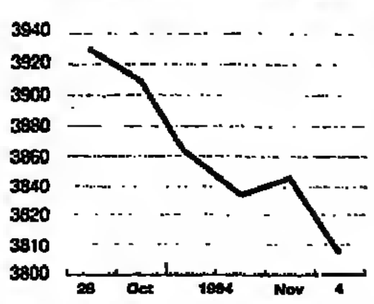
هكذا من الأصل

EQUITY MARKETS: This Week

NEW YORK — Patrick Harverson

Rise in rates now seen as almost certain

Dow Jones Industrial Average



Source: FT Graphite

November is shaping up to be a cruel month for the US stock market, if the first few days are anything to go by. Last week, the Dow ran up a loss of 123 points, or more than 3 per cent. The fall was prompted primarily by a jump in bond yields to 8.16 per cent, their highest levels since August, 1991, and by renewed concerns about inflation.

This week, those two themes – rising *bond yields and fears* of inflation – are likely to continue to haunt the stock market which, with the third-quarter reporting season now over, no longer has the crutch of encouraging corporate earnings to rely upon.

All investors have to look forward to over the coming weeks are higher interest rates. Short-term rates are almost certainly going to go up within the next week and a half because the Federal Reserve appears poised to tighten monetary policy for the sixth time this year.

There is near-unanimity among analysts that the move will come on November 15, when the Fed's policy-making open market committee next meets. Recent data have done nothing to dispel the notion that the economy is growing at such a rate that the central bank must tighten the screws soon to ensure inflation does not get out of hand in 1995.

The only disagreement among Wall Street's sages is over how big the rate increase will be: 50 basis points (which would take the target on the Fed funds rate up to 5¼ per cent) or 100 basis points. A 50bp rise is already priced into both stocks and bonds. If the Fed were to raise rates by a full percentage point, then the markets would probably suffer a nasty, if short, sell-off.

As for long-term interest rates (as measured by the yield on the 30-year bond), they continue to test the record highs of recent years. Money continues to flow into stocks, but at some stage the steady climb in bond yields could cause investors to reverse those flows.

Recent figures show that money market funds have been attracting a considerable amount of cash as investors move funds out of an increasingly sickly-looking stock market. It may not be long before longer-term bond funds enjoy a similar renaissance.

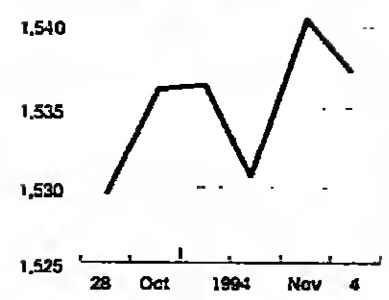
That moment could come soon. Analysts at NatWest Securities point out that when bonds have yielded three times more than stocks, the equity market has run aground. With bonds yielding 8.2 per cent and the Standard & Poor's 500 about 2.8 per cent, this particular alarm bell could sound at any moment.

The only good news this week is that there will be no trading in government bonds on Friday because US banks will be shut for the Veteran's Day holiday, which means the stock market will be able to stop worrying about rising bond yields, if only for a single day.

LONDON — Terry Byland

CBI warning revives fears of tightening

FT-SE-A All-Share index



Source: FT Graphite

The 3,100 mark on the FT-SE 100 Index scale is beginning to replace the Berlin Wall in the minds of UK investors. Some large and highly profitable deals are being done in equities, the sale of Elf-Aquitaine's stake in Enterprise Oil providing but one example. But across the broad range of the market, institutional interest remains light and stockbroking firms not on the right networks are finding it hard to make profits in a market which has made virtually no consistent progress since the end of July, and has now returned to its levels of 12 months ago.

Strategists at the leading UK securities firms offer little comfort for a break-out in the Footsie range this week. "Only a tightening of monetary policy (in the US) can have any sustained impact upon the dollar and US Treasuries," comments NatWest Securities in reviewing the Federal Reserve's activities in currencies.

Assuming that this will not happen until after Tuesday's US mid-term elections, the market will continue to worry ahead of the meeting of the Federal Reserve's Open Market Committee meeting on November 15.

On the domestic side, NatWest is equally forthright as well as in the mainstream of City belief in emphasising that the Bank of England's inflation report leaves unchanged its forecast that "base rates will rise another 0.5 per cent early next year"; but it adds that "It is a close call between then and this week".

The sudden appearance of danger this week is pinned on the Confederation of British Industries warning that industry needs to pass on its higher raw material costs to customers.

A rate rise in December, so soon after the budget, is ruled out but NatWest thinks the Bank of England might just elect to raise rates now and ignore the uproar from a market just informed that the Bank feels happier about inflation.

The stock market felt mildly affronted last week when the news agencies reported the Bank's inflation views immediately while its reminder on base rate trends led the following morning's newspapers.

Sluggish market conditions are beginning to take toll of the the new issues among smaller capitalised stocks, those with flotation capitalisations of £250m or less.

BZW warns that, with more than 55 per cent of its sample of this year's small-cap new issues now trading at or below their flotation price, the institutions are likely to set themselves significantly higher "quality control" standards in the final quarter of the year. This could imply more attractive new issue possibilities ahead, especially if some of the deals recently pulled make a reappearance. The scale of under-performance by 1994 small-cap new issues can hardly be repeated.

International issues

Institutional buyers drive trend towards global deals

News that the number of overseas listings on the London Stock Exchange so far this year doubled during October is further evidence of the internationalisation of the equity capital market.

Although the numbers are small, with the five newcomers to London listings raising £146m in October, one of them was Nippon Telegraph & Telephone, the Japanese telecommunications giant which, with a total capitalisation of $138bn, is the biggest company in the world.

The desire by companies in emerging markets to access international capital was shown by the growth of Indian groups listing in London, since the regulations for the listing of global depositary receipts were changed in August.

New Indian GDRs now listed in London include: East India Hotels; Shriram Industries, the food oils group; J.K. Corp, the copier/airmail group; and Bajaj Autos, the scooter and motorcycle group.

Overall companies – mainly from the emerging markets – have raised more than $11bn since the birth of the GDR in 1990, with $5.5bn of that raised so far in 1994.

While lagging far behind the world's bond markets, equity markets are rapidly becoming more international.

A further small example of this is the vendor placing on Friday by Forte, the UK hotel group, to pay for Meridien, the French hotel group. Forte won control of Meridien earlier this year, defeating Accor of France, and used Forte shares to pay for the acquisition.

Since Forte wanted to broaden its global shareholder base, it turned to UBS and Paribas, the European bank, to place the shares internationally.

"It is attractive to have our equity in the same place as our assets," said Mr Richard Power of Forte.

Two other equity issues being prepared for launch also highlight the tendency towards the globalisation of equity. BSkyB, the satellite television broadcaster, and TeleWest, the UK cable television and telephony operator that has two US parents, are both thought to be planning roadshows in the UK and US and listings in London and New York.

A report published last Friday by the McKinsey Global Institute, the consultants, addresses the same issue. It says: "The equity markets have been slower to globalise than the foreign exchange or bond markets. Significant differences in valuation still exist across different national equity markets even for comparable companies in identical industries."

While the daily volume of global foreign exchange markets is about $1,000bn a day and that of government bond markets $200bn a day, the total daily volume of all the world's stock exchanges is only $23bn a day, the report says.

However, globalisation of equity markets is now being driven by institutional investors, who are rapidly increasing their mix of international equities in their portfolios.

This globalisation is also helped by liberalisation of regulations, advances in technology, securitisation and the use of derivatives, says the report.

Growth in the global capital market will also mean more integration. The report says financial assets are "beginning to act as if they were part of a single, integrated market that links together the foreign exchange markets, money markets, bond markets and equity markets".

But for the bankers at UBS and Paribas, who shifted £175m of shares within four hours on Friday, the global market is already here.

"The Global Capital Market: Supply, Demand, Pricing and Allocation." McKinsey Global Institute.

Martin Brice

OTHER MARKETS

FRANKFURT

The Bundesbank meets on Thursday but James Capel says the sharp rebound in manufacturing orders in September suggests that it is unlikely to be persuaded to ease its monetary stance, in spite of some disappointment over industrial output figures.

The broker adds that the strength of other European economies points to a strong fourth quarter in Germany while the already high level of capacity utilisation heralds an inflationary threat, probably in 1996.

On the corporate front, Munich Re's balance sheet press conference tomorrow is likely to reveal more about the 1993-94 figures, and Siemens will release preliminary figures for the year to September 30 on Wednesday.

The company has already said operating profits are expected to decline by 10–15 per cent over the year. In the first nine months, group net profit fell to DM1.25bn from last year's DM1.32bn for the same period, while last time's full-year group net profit was DM1.98bn.

UBS is awaiting Veba's nine-month figures on Thursday. It expects another increase in pre-tax profits, of about 50 per cent to DM420m, which is at the upper end of expectations and should be viewed positively.

AMSTERDAM

After a good set of company results last week, attention now turns to the two Anglo-Dutch heavyweights, Royal Dutch and Unilever, quoted both in London and Amsterdam, *writes John Pitt.*

Hoare Govett said it was broadly neutral toward energy stocks, and was targeting an oil price of $16.70 a barrel for Brent by the end of this year, rising to $17.30 by the end of 1995.

While Royal Dutch would benefit from its announced redundancy plans in Europe, as well as the recovery in the chemicals sector overall, the broker said that while the stock looked reasonable value against the market, it did not expect it to outperform a rising market.

Hoare was more positive on Unilever, and recommended taking a buy position since the current low valuation was primarily the result of "negative sentiment with no material impact on fundamental results".

STOCKHOLM

A spate of corporate results will make for a busy week in Europe's best performing market over the last quarter, as investors continue to assess last week's budget in the run-up to Sunday's referendum on EU membership.

Nine-month figures are due today from Trygg-Hansa and SSAB reports tomorrow. Electrolux produces third quarter details on Wednesday, Pharmacia on Thursday and Astra and Gambro on Friday.

Mr Peter Tron at Unibank Securities expects a volatile week, although he said that the week's corporate results were unlikely to disappoint.

However, opinion polls suggest that the EU referendum may be too close to call, although Mr Tron said that the markets were discounting a "yes" vote. A "no" vote, he said, could in the short-term lead to a 10–15 per cent correction in equities and a rise in the long bond yield from the current 11.4 per cent to around 13 per cent.

ZURICH

Swiss Re's annual press conference tomorrow, and a subsequent presentation to analysts, may provide further clues on the insurance group's restructuring plans.

The group decided at the end of September to sell all its interests in primary insurance companies in order to concentrate on expanding its core business.

Swiss Re's share price has jumped by almost 30 per cent since the announcement and, along with other financials, it has also been a beneficiary of switching out of UBS as the bank's protracted battle for influence with Mr Martin Ebner's BK Vision rumbles on.

HONG KONG

The market is set for another US-led week, with last Friday's non-farm payroll and job data providing a key signal for the direction of trade today, *writes Louise Lucas.*

Investors will be looking for any inflationary sparks which could feed through into a further rise in interest rates – initially in the US, but followed through the currency link into the colony.

Domestically, there is little on the corporate front this week, although China Light and Power, the electricity utility, reports final results today.

Friday's signing of the long-awaited airport financing deal was received by investors with a degree of nonchalance, with many analysts believing that the deal is already fully factored into the market.

TOKYO

Trading is likely to remain thin as caution over yen-dollar fluctuation continues and the sustained strength of the yen prompts fears of lower profits for exporters, *writes Emiko Terazono.*

Developments in the US continue to hold sway as investors watch for fluctuations in US interest rates which could affect the Japanese money market.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / Sally Bowen

Peru steps out to woo the investors

Strong economic recovery after years of recession underpins the stock market boom that is making Lima the new darling among Latin American emerging markets.

Selected Peruvian stocks – particularly in the mining, banking and cement sectors – have featured consistently among Baring Securities' list of best performers worldwide over the past couple of months.

Peru is also making its debut in the international capital market place. Six weeks ago, Banco Wiese became the first Peruvian company to raise capital through a level 3 ADR issue on the New York stock exchange. The offering was heavily oversubscribed and institutional investors who bought in saw immediate gains of nearly 20 per cent.

Equally significant is that Peruval, the stockbroker, has just succeeded in raising more than $50m of venture capital for its newly-constituted company, Peru Real Estate.

"This is Peru's first venture capital deal," says Mr Lorenzo Sousa, joint managing director of Peruval. "Five Peruvians went to New York and raised $22m in 48 hours, with PaineWebber underwriting more than $50m. We've raised real money on nothing but a project. That's unprecedented."

Peruval's backers are institutional investors in the US and Europe, including George Soros' Quantum Fund, Lehman Brothers and Martin Curry of Edinburgh. The project offers them a 37 per cent internal rate of return over the medium term – "more than realistic in today's Peru," says Mr Sousa.

Three main factors have helped spur recent investor enthusiasm for Lima. Firstly, the realisation that spectacular economic growth is solidly based; secondly, highly encouraging third-quarter results from some leading companies; and finally President Fujimori's late October visit to New York, where he completed a busy programme of promotional contacts with investors and the business community.

Lima's general share index registered a rise of 8.7 per cent last month, while the selective index of 15 blue chips put on 8.5 per cent.

By the end of October, market capitalisation had jumped to $8.3bn, putting on 3 per cent in the month and 64 per cent since the start of the year. Volumes traded in both September and October were about $370m, some 60 per cent higher than August. The daily average traded over the past 12 months has been $13.5m, with foreign investors accounting for maybe 45 per cent of the total.

Recent activity, it is true, comes after a sluggish period from April to July. The index put on some 40 per cent in the first quarter of the year, on domestic economic growth prospects and increased direct foreign investment. The $2bn purchase by Telefónica, the Spanish group, of a controlling share in formerly state-owned telecommunications companies Entel and CPT gave the market a special boost.

Ten best performing stocks				
Stock	Country	Friday 4/11/94	Week on week change $	%
Norte Pacasmayo	Peru	4.3376	0.8707	25.12
Aksa Akrilik ve Kinya Sanayii	Turkey	0.7847	0.1336	20.53
Eczacibasi Ilac	Turkey	0.0991	0.0146	17.30
Lucky Securities	S.Korea	30.4874	4.3715	16.74
MDX	Thailand	4.4881	0.5948	15.28
Daewoo Securities	S.Korea	47.5503	5.7398	13.73
Kia Motors	S.Korea	23.4615	2.7446	13.25
Cho Heung Bank	S.Korea	18.0666	1.9953	12.42
Korea First Bank	S.Korea	17.5848	1.7536	11.09
Koc Holding	Turkey	0.6883	0.0650	10.42

Source: Baring Securities

Like all other Latin American stock markets, however, Lima responded negatively to the successive rises in US interest rates and, in lesser measure, to the assassination in March of Mr Donaldo Colosio, the Mexican presidential candidate. More than a quarter was knocked off values in the April to August period.

"Lima isn't immune to the generalised rise and fall of world markets," says Mr Jose Miguel Gamarra, head of research at Baring's Lima office. "But the real difference here is Peru's excellent economic performance which is not found in other emerging markets."

Peruvian GDP has grown by 12.3 per cent in the first nine months of the year with the fishing and construction sectors each topping 30 per cent growth. Last year, output rose by 6.5 per cent.

Inflation, meanwhile, seems to have been tamed. October price rises in Peru – at less than 0.3 per cent – were lower than in most of the developed world. Inflation looks likely to end the year below 18 per cent.

On the back of these achievements, large companies are turning in sharply improved performances. Mr Miguel Palomino, director of Peru's recently-opened Lima office of Smith New Court, says the 24 leading Peruvian companies he monitors closely are expected to announce 1994 profits on average double last year's.

The turnround in companies' performance answers the question of whether, with current p/e's of about 25, Peruvian stocks are overvalued. "If you are looking backwards, maybe yes, but projecting ahead to 1995, definitely no," says Mr Palomino. He predicts an average p/e of about 15 for the coming year for market leaders.

Since current strong growth follows years of recession (GDP dropped 25 per cent between 1988 and 1992), Peruvian companies find themselves with installed capacity to spare – at present, only about 60 per cent is utilised, allowing for rapid expansion on minimal investment.

With Peru investing heavily in upgrading infrastructure and consumer demand picking up, local analysts are still tipping the basics as best local bets for growth.

Mining companies Buenaventura (silver and gold), Minsur (tin), SPCC (copper) and Milpo (lead and zinc) are highly recommended, for their management as well as their prospects. Cementos Lima, newly transferred to the private sector and Cementos Norte Pacasmayo, which is soon to be privatised; brewers Backus and Johnston and CNC; and CPT and Tele 2000, the telecommunications companies, are the stocks on every broker's list of recommendations.

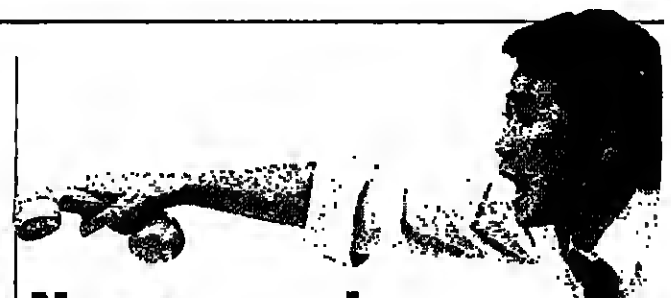
Peru's financial sector, too, "is going to grow like crazy," says Mr Palomino. The Banco de Credito, Peru's largest bank with some 29 per cent of all deposits, showed profits of $30m in the first nine months, while Banco Wiese, the second private bank, notched up profits of $21m.

Following the success of Banco Wiese's ADR issue there should be several more Peruvian issues in coming months. The Delgado Parker telecommunications group will launch Pantel, and Cementos Lima will follow its June international over-the-counter offering by registering a number of its shares under the ADR mechanism.

Prospects for further stock market expansion are good. The Fujimori administration's aggressive privatisation programme is in full swing and a residue of state-held shares (the state is initially retaining about 30 per cent in privatised telecommunications and energy sector companies) will gradually be released on to the local market.

According to Peruval, these initial public offerings could boost Lima's market capitalisation from its present $8bn to about $14bn by late next year and $19bn by 1996.

With general elections coming up in less than six months, the stock market might be expected to go through a bumpy patch. No serious challenger to Mr Fujimori, however, shows any desire to deviate from the firm economic lines set by the current administration and analysts expect sustained annual growth of at least 5 per cent for the next three or four years.



News round-up

■ Pakistan

Regent Pacific, the Hong Kong based Asian fund management and financial services group, has formed a joint venture with the National Investment Trust of Pakistan and Dar-al Maal Al-Islami Group of Saudi Arabia for an asset management and financial services company in Karachi.

The Emerging Investment Company, with a paid up capital of Rp100m ($3.3m), plans to float both closed-end and open-end investment vehicles in Pakistan, and hopes to launch the first closed-end fund by the end of the year.

■ South Africa

The International Finance Corporation launched new stock indices for South Africa from November 1, thereby increasing its coverage of emerging markets to 26. The new indices – global and investable – are weighted by market capitalisation.

South Africa, with a per capita GNP of $2,670 at the end of 1992 qualifies as an emerging market under World Bank definitions, and as such is the world's largest with a total market cap of $218bn.

■ China

The People's Bank of China is understood to be considering opening 10 more major cities, including Beijing, to foreign financial institutions. The insurance market in Shanghai would also be opened up to foreign companies on an experimental basis.

■ India

The finance ministry has announced new rules for takeovers saying buyers must disclose intentions ahead of acquiring large blocks of shares in target companies.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page*

Baring Securities emerging markets indices

Index	4/11/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	179.32	-2.72	-1.49	-10.53	-5.55	+10.91	+6.48
Latin America							
Argentina (20)	105.37	+0.86	+0.82	-7.53	-6.67	-10.01	-8.68
Brazil (21)	218.25	-7.79	-3.44	-41.20	-15.88	+78.60	+56.29
Chile (12)	222.40	-3.97	-1.75	+10.69	+5.05	+74.86	+50.74
Mexico (25)	141.93	-2.79	-1.93	-9.98	-6.57	-19.33	-11.99
Peru(16)	943.99	+17.33	+1.87	+26.53	+2.89	+367.90	+63.86
Latin America (94)	166.61	-3.43	-2.02	-15.52	-8.52	+17.37	+11.64
Europe							
Greece (16)	84.17	+0.03	+0.03	-1.19	-1.39	+1.08	+1.30
Portugal (18)	122.01	-0.31	-0.25	+3.64	+3.08	+9.89	+8.82
Turkey (21)	76.90	-0.93	-1.19	-10.59	-12.10	-84.81	-52.45
Europe (55)	99.55	-0.34	-0.34	-0.87	-0.87	-12.68	-11.30
Asia							
Indonesia (28)	153.73	+0.67	+0.44	+1.57	+1.03	-17.31	-10.12
Korea (23)	161.46	+3.21	+2.03	-2.76	-1.68	+51.76	+47.18
Malaysia (23)	229.43	-6.53	-2.77	-8.28	-3.48	-23.62	-9.33
Pakistan (11)	107.42	-6.93	-6.06	-10.27	-8.73	-4.28	-3.83
Phillippines (12)	309.92	+7.47	+2.47	+25.34	+8.90	-12.56	-3.89
Thailand (25)	280.46	+2.86	+1.03	+13.33	+4.99	+16.91	+6.42
Taiwan (32)	166.78	-5.85	-3.39	-21.95	-11.63	+13.07	+8.50
Asia (152)	225.28	-2.08	-0.92	-3.97	-1.73	+3.86	+1.74

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES

Dollar stays focus of market attention

The dollar will remain the centre of attention, even if intervention by the Federal Reserve last week effectively put a short-term floor under the currency.

The focus of market attention will now shift to the November 15 meeting of the Federal Open Market Committee, which is widely expected to sanction a further rise in US interest rates.

In the interim, the dollar is likely to be protected from the full force of market bearishness by the prospect of further intervention, possibly on a co-ordinated basis.

The dollar is sure to be a subject of discussion when G10 central bankers meet today in Basle. So far, however, there has been no indication of intervention spreading beyond the US and Japan.

Dollar selling pressure among institutional investors also appears limited. "They are very aware that the crowd psychology in the market is moving towards a position of extreme bearishness," said Mr. Neil MacKinnon, chief economist at Citibank in London.

"They are not really in the mood to sell the currency from these sorts of levels."

With mid-term congressional elections this week, and the quarterly treasury refunding, the US authorities have ample reason for wanting to stabilise the dollar.

Mr Robin Aspinall, strategist at Panmure Gordon, the broker, comments: "A stable dollar may win more votes; it certainly makes it easier to sell bonds to foreigners."

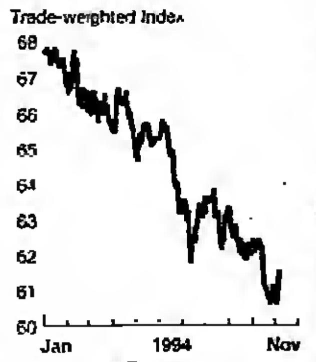
The elections are unlikely to have much market impact, except in the unlikely event of the Democrats doing much better than expected, or the Republicans making gains on traditional Democratic strongholds.

One event that will distract attention from the US is the Bundesbank council meeting on Thursday. As Mr Hans Tietmeyer, president of the Bundesbank, has stressed recently, German rates can go in either direction.

This is more than can be said for many of the other leading economies, where the direction of rates can only be up.

Dollar

Trade-weighted Index



Source: Bank of England

WORLD BOND MARKETS: This Week

NEW YORK — Richard Waters

The Treasury bond market seems likely to remain in a jittery mood this week. With the Federal Reserve's policy-making committee due to meet eight days from now, there seems little immediate cause for buyers to come back to the market – particularly with a wounded dollar and the Treasury's quarterly refunding this Tuesday and Wednesday.

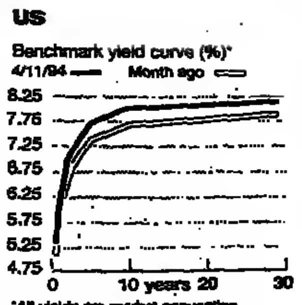
At least the chance of further price declines this week looks limited. A belief that the authorities will raise the Federal funds rate sharply, possibly by more than the 50 basis points, was already largely reflected in bond prices by last Friday night. The 30-year bond ended the week at a yield of 8.15 per cent, up from 7.95 per cent a week before and its highest level for more than three years.

The only significant new data will come on Thursday, with the publication of the producer price index for October. (With the market closed on Friday for the Veterans Day holiday, the consumer price index follows next week.) This is widely expected to show only a modest increase of 0.2 per cent or so, if any at all, after a 0.5 per cent fall the previous month.

However, last week's jump in the National Association of Purchasing Management's index suggests that producer price inflation could feed through into figures later this year.

US

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

LONDON — Philip Coggan

The gilts market will start the week with just a trace of nerves, in case the chancellor and the governor did, after all, agree to increase base rates at their monthly monetary meeting last week.

If, as most believe, they decided to leave rates unchanged, there should be scope for a rally in the short end of the market this week.

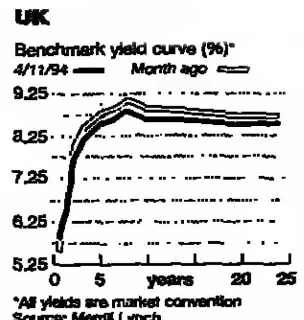
Mr Ian Shepherdson, UK economist at Midland Global Markets, thinks the longer end of the market will struggle to make progress unless German bunds perform well. Ten-year gilts yield 120 basis points more than 10-year bunds, at the lower end of the recent spread range. However, Mr Shepherdson points out that gilts have been remarkably resilient in the face of weakness in the US market, suggesting Europe, not the US, is now the dominant influence on the UK bond market.

Mr Simon Briscoe, bond analyst at SG Warburg Securities, thinks the ultra-long end of the market may be set to weaken. At the moment, there is an inverted yield curve at the long end, with long gilt yields being driven down by the absence of supply.

If, as Mr Briscoe suspects, the chancellor announces a partial gilt repo facility in the Budget on November 29, that will make it easier for investors to switch from ultra-longs into medium-term gilts, where yields are higher.

UK

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

The German bond market is faced by a double uncertainty at home and abroad which should keep yields high in coming weeks.

The main concern is over the timing and extent of rises in US interest rates, with anxiety heightened by Friday's lower unemployment figures. "The Fed's hesitation in lifting interest rates in a period of dynamic economic growth stirs inflation fears," said Mr Jürgen Bokr of BHF Trust.

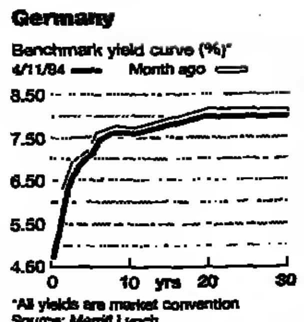
Once US rates do go up, he added, and the spread between US and German 10-year government bond yields widens a little further, "the yield on German long-dated bonds may well fall below the 7 per cent mark again in the first quarter of 1995".

Last week, they were around 7.6 per cent. Before they can start drifting down again, the market will also have to be more relaxed about German fiscal and thus monetary policy. The re-elected Bonn government's slim majority has unsettled capital market confidence in its commitment to rein back spending growth.

The Bundesbank – whose council meets this week, but is expected to leave interest rates unchanged – also wants to see inflation fall further and M3 growth to ease substantially. "We need a better overview before we can decide whether our central bank interest rates remain appropriate," Mr Hans Tietmeyer, the bank's president, said on Friday.

Germany

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

Trading in cash government bonds is expected to remain subdued this week due to expectations of higher short-term interest rates. However, the bond futures market is likely to see a continued increase in activity as dealers and investors buy back the December contract ahead of an expected change-over in futures contracts at the end of the week.

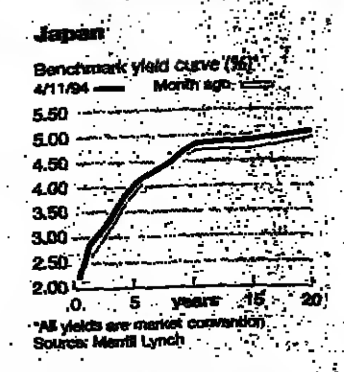
A further rise in futures prices could support the cash market. However, increasing funding needs at banks due to the high level of maturing certificate of deposits may put upward pressure on short-term interest rates, which are already gradually rising, and weigh on the bond market.

Some Y10,000bn of three-month CDs are expected to mature as commercial banks are choosing other methods of capital raising to avoid a rise in three-month CD rates, which are the basis for short-term prime rates, or lending rates for first-tier customers. The banks do not want to have to raise short-term prime rates when demand for funds among corporations is already low.

Most banks have been refraining from issuing CDs since August, resorting to short-term money markets for funds. At the end of October, outstanding CDs totalled Y14,980bn, of which 70 per cent are expected to mature this month.

Japan

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

Eurobonds

Brazil maintains issue supply

Banco Votorantim's three-year eurobond last week came on the heels of several other Brazilian eurobond offerings and suggests that a recent tax increase on issuers, while leading to soma postponements, has not choked off supply.

Prospects are expected to improve strongly if the newly elected President, Mr Fernando Henrique Cardoso, is able to consolidate the successes achieved by his Real plan. Mr Cardoso, whose election was welcomed by the business community, takes office in January.

Last month, the Brazilian government increased to 7 per cent from 3 per cent the tax on money raisad by eurobond issues in an attempt to limit foreign exchange inflow. Bankers say the tax may slow down growth but will not affect the core market.

Mr Edvaldo Morata, a vice-president at Dutch-owned ING Bank's Sao Paulo office, noted that the $50m Banco Votorantim issue, which ING Bank lead-managed, had been postponed for about 10 days while the issuer recalculated its costs following tha tax increase.

"They realised that it was still worth it as they could lend the capital in Brazil at high local interest rates," said Mr Morata.

As wall as Banco Votorantim thera have bean issues by Iochpe-Maxion, a car parts company, Riocell, a pulp company, and Sophora Comércio, a financial managemant company, since the tax increase.

Nevarthelesa, Brazilian issues, like Latin American issues in general, hava been sharply reduced this year because of the turbulence in world interest rates.

According to West Merchant Bank in London, Brazilian euromarket issuas totalled $1.8bn in the first three quarters of this year compared with $4.5bn for the same period last year.

Bankers believa that economic success for the new government will lead to a narrowing in the yield spreads paid by Brazilian issuers, as well as an increase in the demand for capital by local companies. Currently Brazilian issuers on average pay 400 to 500 basis points above US Treasury bonds. This compares with up to 250 basis points for Mexican issuers.

Mr Paul Stocking, a vice-president at J.P. Morgan's emerging market research in New York, is cautiously optimistic about increased demand for Brazilian issues butstressed that a further increase in demand for Brazilian paper depends on economic reforms similar to those already implemented in Mexico and Argentina.

Until then "the international market will continue to expect a premium from Brazilian issuers", he said.

Some analysts believe that, given the size of Brazil's economy and the competitiveness of its private sector, Brazilian eurobond spreads could come down by 100 basis points to the Argentine level by 1995, providing reforms are introduced and inflation controlled.

"The next question is when Brazil will overtake Mexico," said one Sao Paulo banker.

Patrick McCurry

Government issues

Australia joins the floating-rate club

Australia's decision to issue floating-rate bonds highlights a growing trend among governments to avoid selling fixed-rate debt at the long end of the yield curve.

This year's sharp downturn in world bond markets has pushed long-term yields dramatically higher. As a result, several governments, including the UK, Germany and Portugal, have become increasingly reluctant to issue long-dated bonds at what they consider to be unjustifiably high rates, turning instead to floating-rate debt at much lower money-market rates.

Australia will join the club today with its first-ever issue of floating-rate domestic government bonds, or Treasury adjustable-rate bonds. The issue of will consist of A$1.5bn bonds due March 9 1998 with a coupon of 20 basis points below the three-month bank bill rate and a re-offer yield 15 basis points below the bank bill rate.

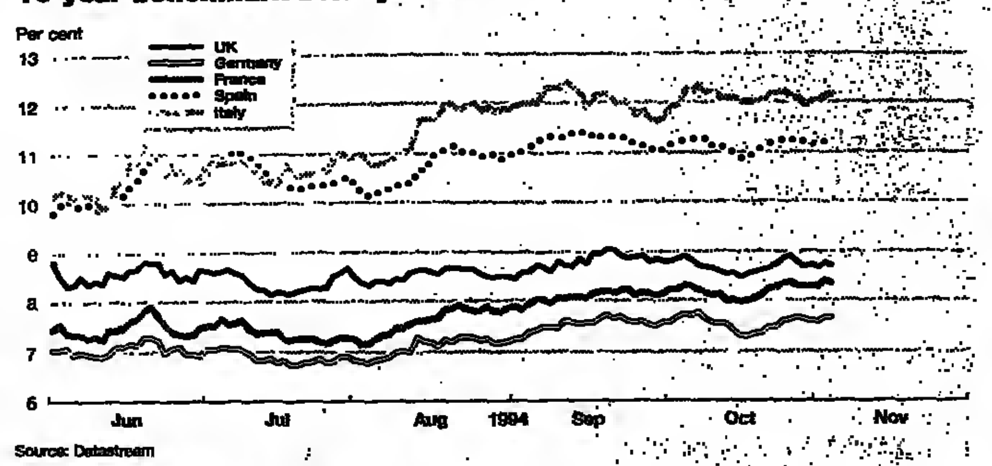
It will be lead-managed by Commonwealth Bank of Australia, with National Australia Bank, Westpac Banking Corporation and Bankers Trust Australia as co-leads. Future TAB issues are likely to be sold via the usual public tender system.

According to the Australian Traasury: "Issuance of this adjustable-rate bond is expected to enhance the Commonwealth's flexibility to raise debt and efficiently manage its debt portfolio. Similarly, the introduction of an adjustable-rate bond will provide investors with greater flexibility in managing their floating-rate exposure while minimising rollover risk and assisting interest-rate hedging."

The shift to floating-rate from fixed-rate debt reflects the Australian governmant'a reluctance to issue bonds at the long end of the yield curve, analysts say. On Friday, the 9 per cent government bond due 2004 was yielding 10.56 per cent, against 6.93 per cent on the three-month bank bill rate.

Conner Middelmann

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.00	1.75	4.50	6.40[1]	7.50	5.75[2]
Overnight	4.69	2.25	4.81	5.28	8.12	5.13
Three month	5.30	2.31	5.04	5.46	8.56	6.00
One year	6.33	2.75	5.53	6.25	9.68	7.25
Five year	7.69	4.09	7.06	7.77	12.04	8.53
Ten year	7.99	4.74	7.60	8.26	12.07	8.68

(1) France-Repo rate, (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	96-27	96-07	-0-19	97-14	96-06	297,105	386,691
Mar	96-06	95-19	-0-19	96-20	95-18	1,526	30,486
Jun	95-20	95-01	-0-18	96-00	95-01	534	11,462

Corporate issues

GrandMet finds preferred US route

Grand Metropolitan, the UK food and drinks group, may have started a trend by issuing a new kind of undated security in the US fixed-rate preferred market early last week.

GrandMet issued $500m of so-called "preferred securities" on Tuesday, targeting US institutional and retail investors, with a coupon likely to be in the range of 9.25 and 9.325 per cent when the paper is priced this week.

The structure of the security, jointly lead-managed by Goldman Sachs and Merrill Lynch, offers a tax advantage which makes it around 300 basis points cheaper than a direct issue of preferred shares.

Indeed, the offer is only about 50 to 75 basis points more expensiva than issuing equivalent debt, yet it gives GrandMet's management much greater flexibility than new borrowing in the debt markets, and the comfort of solid ratings (A2/A+) from the major US credit rating agencies.

Mr Nick Rose, the company's corporate treasurer, says it provides an "economic equivalent of a parent issue of preferred stock", will improve gearing and interest cover, and will lengthen the maturity profile of the group's debt.

He also stresses that there are wider advantages to be gained from access to the US fixed-rate preferred market. "Preferred stock is a retail product which mamas and papas will buy. This is a way to get GrandMet's name and brand across to a new class of investors. It can only be beneficial."

UK companies have been active players in both the variable-rate preferred stock market (which is priced off the short end of the yield curva) and, more recently, in the fixed-rate preferred stock market.

However, bankers said tha GrandMet deal could be a model for other UK companies seeking to raise capital in the US.

"The transaction opens up another means of tapping a very significant market which can have low-cost financing and other strategic benefits," says Mr Bruce Macfarlane, a managing director with Merrill Lynch.

The tax advantage of the preferred security is rooted in the creation of a so-called "pass-through" subsidiary, located in the US state of Deleware for tax and legal reasons.

The subsidiary issues the stock and then on-lends the proceeds back to the parent and to an operating subsidiary (in GrandMet's case based in the US).

Interest payments on the loan are tax deductible. Goldman Sachs, which is also book-runner for the issue, claims the instrument, which it calls a UK preferred security, "represents an attractiva and important source of non-dilutive quasi-equity capital, which to dats has been unavailable to UK corporations."

Preferred securitias offer investors no voting or equity rights and can be issued in convertible form.

Mr Calum Osborne, executive director, capital markets, at Goldman Sachs, explains that the new product builds on a range of initiatives in the US fixed interest preferred market over the last fiva years.

These were originally triggered by changes in rules governing the capitalisation of banks, after the report of the Basle committee in 1989.

The ruling of the Basle committee that certain types of perpetual shares could be counted as tier one capital – as essentially equivalent to equity – for solvency purposes, prompted a number of British banks to issue preferred stock. UK companies, including the banks, have issued almost $4.5bn worth since 1989.

However, restrictions in local laws made it impractical for most European banks to issue preferred stock in eithar the US or in some cases in their own domestic markets, putting them at a competitive disadvantage.

The solution was to develop so-called "pass-through" subsidiaries located in offshore centres such as the Cayman Islands and Luxembourg which could issue the preferred securities and then on-lend the proceeds to their parent. European – mainly French and Spanish – companies have issued more than $3.58bn in US perpetual preferred stock since September 1991.

The tax advantages – stemming from tha conversion treatments of the inter-company loan – were a by-product of these developments.

Bankers such as Goldman Sachs and Merrill Lynch have worked at ways of bringing these same advantages to a wider range of companies.

One breakthrough came late last year when Goldman developed the idea of monthly income preferred securities or Mips, allowing domestic US companies a tax-efficient entry to the preferred market by establishing "pass-through" vehicles in the Turks and Caicos Islands, where local corporation law was amended to accommodate the new structures last year, or more recently in Delaware.

Since last October, US companies have issued $5.11bn in Mips, with utilities companies accounting for 70 per cent of all issues.

The new structura announced last week builds on the Mip idea and gives GrandMet a better agency rating and greater certainty about tax treatment.

The preferred security is also undated, unlike Mips which have a 30 to 50-year mandatory redemption.

Goldman lays great stress on the favourable response from the rating agencies.

"Standard & Poor's considers the preferred security as superior to a direct issue of parent preferred due to low cost, unlimited deferral feature and limited investor remedies," says Mr Osborne.

"There has been an accelerated evolution of these structures," he points out. "There is a general recognition that you can achieve lower cost in a way which is not destructive to agency ratings."

Richard Lapper

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Sanwa Finance Aruba‡	400	Nov.2004	(a)	100.00	-	-	Sanwa International
NTT	300	Nov.1999	7.75	99.495R	7.876	+24(7½%-99)	JP Morgan/ Paribas
Banco Votorantim	50	Nov.1997	10⅞#	98.52R	11.47	+435(6½%-97)	ING Bank
Credit Suisse(London Branch)	300	Nov.2004	8.50	99.21R	8.621	+55(7¼%-04)	CS First Boston
Andalucia(a)	260	Jan.2000	8.00	99.17R	8.21	+47(7½%-99)	Deutsche/ Goldman
Hewlett-Packard Finance Co.	250	Dec.1997	7.50	99.831R	7.585	+25(6½%-97)	Deutsche Bank London
Société Générale Acceptance	250	Dec.1997	zero	79.94R	7.749	+27(WI 3yr)	Lehman/ Soc.Gen.ST
Teco Electric & Machinery(g)§	100	Apr.2004	2.75	100.00	-	-	BZW
Banco Bamerindus do Brasil(l,m)	50	Nov.1997	11.00#	98.70	11.52	+412(WI 3yr)	Swiss Bank Corp.
YEN							
Santander International(h)★	30bn	Feb.2000	4.70	100.22R	-	-	Daiwa Europe
Colfi International★	15bn	Nov.2004	5.20	100.00	5.200	-	Daiwa Europe
Nomura Bank(a,s)★	8bn	Feb.1998	4.00	100.00	-	-	Nomura International
STERLING							
Irish Permanent‡	100	Dec.1997	(d)	99.839	-	-	NatWest Capl.Markets
D-MARKS							
Ford Credit Europe	200	Dec.1999	7.50	99.93R	7.517	+45(6¾%-99)	Dresdner Bank
Depfa Finance	750	Dec.1999	7.375	99.50R	7.499	+30(6¾%-99)	Commerzbank/ UBS
European Investment Bank(s)	100	Mar.2000	7.25	100.985	-	-	DG Bank
Inter-American Dev'ment Bank	300	Dec.2004	7.75	99.116R	7.881	+20(7½%-04)	Deutsche Bank
IBM International(f)‡	100	Nov.1997	(f1)	99.925	-	-	JP Morgan
ITALIAN LIRE							
Bayerische Vereinsbank(f)	100bn	Dec.1996	11.98	101.27	10.27	-	Credito Italiano
Crédit Local de France(k)	100bn	Nov.1997	11.30	102.215	10.40	-	Credito Italiano

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
ECUS							
BNG(#)	150	Dec.1998	8.125	99.77R	8.195	+12½(7¼-98)	Swiss Bank Corp.
Bayerische Hypobank(a,i)	100	Dec.1998	8.25	99.894R	8.282	+20(7¼%-98)	BZW
General Electric Capl.Corp.(h)	100	Nov.1998	8.00	99.64R	8.109	+8(7¼%-98)	UBS
AUSTRALIAN DOLLARS							
Toyota Finance Australia	100	Dec.1997	9.75	100.73	9.459	-	Hambros Bank
New Sth.Wales Treas.Corp.★	100	Nov.1997	4.50#	88.161	9.098	-	Nomura International
Rabo Australia	75	Dec.1996	9.50	101.22	8.803	-	Swiss Bank Corp
SWISS FRANCS							
Bayerische Landesbank(b)	75	Oct.1998	5.375	102.125	4.76	-	Credit Suisse
Nabco(c)★‡	70	Dec.1998	(c1)	100.00	-	-	DKB (Schweiz)
General Electric Capital Corp.	125	Dec.1997	5.375	102.35	4.520	-	Credit Suisse
LUXEMBOURG FRANCS							
Rabobank Nederland	3bn	Dec.2004	8.25	101.70	7.997	-	BGL/ Rabobank Lux.
BNG	2bn	Dec.2000	8.00	102.125	7.547	-	BGL/ Paribas Lux.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. ϕWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Callable on any coupon date from Nov.99 at par. a1) 6-mth Libor +25bp to Nov.98 and +60bp thereafter. b) Fungible with SFr150m. Plus 48 days accrued. Long 1st coupon. c) Puttable on 1/12/97 at par. c1) 6-mth Libor +0.275% for 1st 3 yrs and -0.125% thereafter. d) 3-mth Libor +10bp. e) Tranche 4 of Y16bn 5-tranche deal. f) Issue launched on 25/10/94 was increased to L250bn. g) Conversion price: NT$75.20. FX: 26.055NT$/$. Callable from 16/11/97 subject to 140% hurdle. Conditional redemption price 171.19%, otherwise par. Greenshoe: $20m. h) Spread relates to French govt Ecu BTAN's. i) Over interpolated yield. j) Issue launched on 20/10/94 was increased to DM400m. j1) 3-mth Libor +⅛%. k) Issue launched on 12/10/94 was increased to L250bn. l) Long 1st coupon. m) Acting jointly and severally with Banco Bamerindus Investimento Mercantil. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

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WORLD STOCK MARKETS

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, November 4, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.4m	398		Sumitomo Chem	2.6m	579	+10
Hitachi Zosen	5.2m	580	-3	Mitsubishi Hvy	2.5m	778	
Nakabayashi	3.9m	970	+85	Pacific Mtls	2.6m	523	+7
Sumitomo Mtl	3.3m	358	-5	Mitsubishi Oil	2.3m	985	+5
Toshiba	3.1m	744		NKK	2.2m	297	

INDICES

	Nov 4	Nov 3	Nov 2	1994 High		1994 Low	
Argentina							
General (29/12/77)	19182.44	19361.88	19385.50	25470.40	16/2	17708.50	20/4
Australia							
All Ordinaries(1/1/80)	1989.8	2009.1	2010.7	2340.60	3/2	1898.80	4/11
All Mining(1/1/80)	1048.3	1052.3	1058.1	1136.10	3/2	904.80	5/5
Austria							
Credit Aktien(30/12/84)	332.45	333.54	392.04	460.68	2/2	376.94	25/10
Traded Index(2/1/91)	1044.32	1046.02	1043.27	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1383.69	1381.28	1365.44	1542.85	9/2	1336.38	7/10
Brazil							
Bovespa (29/12/83)	58667.0	45080.0	(c)	58667.08	4/11	3800.80	3/1
Canada							
Metals Mints♦(1975)	4041.65	4113.89	4121.78	4278.82	20/10	3289.06	20/4
Composite♦ (1975)	4198.80	4226.80	4229.00	4809.90	23/3	3939.90	24/6
Portfolio§§ (4/1/83)	2023.83	2041.40	2040.44	2182.89	1/2	1868.48	28/6
Chile							
IPSA Gen (31/12/80)	5570.9	5599.5	5819.1	5879.20	19/10	3801.20	4/4
Denmark							
CopenhagenSE(3/1/83)	339.44	340.71	338.90	410.79	2/2	328.11	7/10
Finland							
HEX General(28/12/90)	1944.9	1950.9	1957.5	1972.00	4/2	1801.10	3/1
France							
SBF 250 (31/12/90)	1261.87	1270.45	1252.89	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1931.65	1811.13	1873.60	2355.86	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	780.61	771.28	773.79	858.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2219.0	2192.30	2199.70	2469.50	2/5	2116.30	5/10
DAX (30/12/87)‡	2087.56	2051.48	2042.35	2271.11	16/5	1980.59	7/10
Greece							
Athens SE(31/12/80)	831.87	825.81	824.72	1194.58	18/1	808.87	25/5
Hong Kong							
Hang Seng(31/7/64)	9530.40	9491.96	9451.78	12201.09	4/1	8369.44	4/5
India							
BSE Sens.(1979)	(c)	4304.43	(c)	4628.57	12/9	3484.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	520.59	522.84	524.09	612.69	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1833.24	1820.62	1811.72	2082.16	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	629.30	623.87	625.54	817.17	10/5	585.65	10/1
MIB General (4/1/94)	1019.0	1010.0	1012.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19811.56	(c)	19750.65	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	287.25	(c)	287.01	311.71	13/6	268.22	4/1
Topix (4/1/68)	1589.80	(c)	1588.68	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2219.03	(c)	2209.80	2542.65	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	1074.41	1068.48	(c)	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2543.07	(c)	2881.17	8/2	1957.32	20/4
Netherland							
CBS TtlRtnGen(End 83)	439.1	437.7	433.0	454.80	31/1	408.30	21/6
CBS All Shr (End 83)	275.7	274.8	271.9	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	2113.23	2117.43	2108.73	2430.84	3/2	1945.51	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1050.52	1049.14	1053.66	1211.10	28/2	980.31	21/6
Philippines							
Manila Comp (2/1/85)	3096.58	3054.99	3090.65	3308.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	2877.50	2883.70	2882.00	3226.80	18/2	2612.80	20/6
Singapore							
SES All-S'pore(2/4/75)	575.58	575.15	(c)	641.61	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2247.0♥	2257.0	2241.0	2534.00	7/9	7749.00	14/2
JSE Indl. (28/9/78)	6785.0♥	6738.0	6605.0	6785.00	4/11	5448.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1119.52	1117.73	1105.74	1119.52	4/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	296.82	295.50	293.24	358.31	31/1	288.88	26/10
Sweden							
AffarsvarldnGen (1/2/37)	1443.90	1447.30	1471.10	1603.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1191.16	1185.91	1171.85	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	905.17	902.40	892.88	1093.29	31/1	876.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6389.11	6306.29	6342.66	7191.13	30/9	5184.63	19/3
Thailand							
Bangkok SET (30/4/75)	1522.94	1528.51	1529.10	1753.73	4/1	1198.58	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	25450.3	25221.3	25290.9	28883.80	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)$	633.5*	634.2	637.8	649.90	2/11	591.80	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1333.72	1325.53	1316.01	1540.10	31/1	1288.48	5/10
Euro Top-100 (26/6/90)	1182.83	1180.17	1169.24	1311.01	2/2	1139.49	5/10
JCmpEOrgns (31/12/88)	(u)	338.70	337.67	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	179.32	180.79	181.85	181.79	28/9	141.85	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	1915.0	1934.0	+17.0	1940.0	1913.02	23,168	22,598
Dec	1928.0	1942.5	+17.0	1944.0	1924.0	874	26,894
Mar	1954.0	1968.5	+17.5	1962.0	1954.0	109	6,717

Open interest figures for previous day.

US INDICES

Dow Jones	Nov 4	Nov 3	Nov 2	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3807.52	3845.88	3837.13	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	(u)	94.73	94.89	105.61 (21/1)	94.73 (3/11)	106.77 (15/10/93)	54.99 (1/10/81)
Transport	1497.88	1518.61	1518.64	1862.29 (2/2)	1438.50 (5/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	178.18	180.13	179.15	227.06 (2/1)	175.85 (20/9)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3879.52 (3872.49) Low 3802.81 (3814.25) (Theoretical) Day's high 3865.79 (3853.62) Low 3807.52 (3833.43) (Actual)

Standard and Poors	Nov 4	Nov 3	Nov 2	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	462.28	467.91	468.50	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	549.57	556.98	554.46	583.10 (28/10)	510.05 (21/4)	583.10 (28/10/94)	3.62 (21/6/32)
Financial	42.84	43.34	43.14	46.94 (14/6)	41.33 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	254.71	258.66	255.98	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (28/4/42)
Amex Mkt Val	452.91	454.57	454.16	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	756.08	772.10	771.82	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Oct 28	Oct 21	Oct 14	Year ago
Dow Jones Ind. Div. Yield	2.70	2.72	2.71	2.77
	Nov 2	Oct 26	Oct 19	Year ago
S & P Ind. Div. yield	2.39	2.39	2.36	2.41
S & P Ind. P/E ratio	20.95	20.82	21.11	28.61

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est vol	Open Int.
Dec	468.80	462.40	-6.40	471.00	461.70	87,581	204,075
Mar	472.90	465.45	-6.45	473.80	465.00	281	15,021
Jun	-	469.40	-6.40	477.80	469.20	8	3,494

Open interest figures are for previous day

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Telefonos	4,388,500	56⅛	+1⅛
Gen Motors	4,249,100	39¾	+⅛
Wal-Mart	3,112,000	23¾	+⅛
Compaq	2,742,400	38½	-1⅛
Tenneco	2,566,800	42⅞	-¾
IBM	2,552,700	71⅞	-1¾
Limited	2,374,300	20⅛	-¼
Ford Motor	2,078,900	29	-⅞
Walt Disney	1,982,700	39⅞	-⅛
Intl Game	1,972,200	19⅛	+⅜

■ TRADING ACTIVITY

● Volume (million)	Nov 4	Nov 3	Nov 2
New York SE	280.426	284.469	331.346
Amex	18.703	13.471	18.060
NASDAQ	(u)	276.691	330.870
NYSE			
Issues Traded	2,885	2,898	2,908
Rises	571	1,084	945
Falls	1,490	1,044	1,259
Unchanged	724	770	704
New Highs	70	31	44
New Lows	760	117	170

** Sat Oct 29: Taiwan Weighted Price 6526.47; Korea Comp Ex 1098.26. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 4 - 2089.39 +8.02

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2507	+0.0025	429 - 584	17.3058	17.2225	17.2483	0.3	17.2345	0.4	-	-	115.4
Belgium	(BFr)	50.4027	+0.0911	692 - 361	50.5700	50.3290	50.3727	0.7	50.3027	0.8	50.1627	0.5	117.1
Denmark	(DKr)	9.6067	+0.0084	002 - 132	9.6311	9.5870	9.6043	0.3	9.619	-0.5	9.5980	0.1	117.1
Finland	(FM)	7.5422	+0.0313	325 - 519	7.5620	7.5230	-	-	-	-	-	-	88.5
France	(FFr)	8.4067	+0.0042	016 - 117	8.4350	8.3958	8.4045	0.3	8.3968	0.5	8.3287	0.9	110.3
Germany	(DM)	2.4501	+0.0002	487 - 514	2.4590	2.4458	2.4485	0.6	2.4448	0.9	2.4119	1.6	126.4
Greece	(Dr)	377.835	-0.31	511 - 158	378.972	377.079	-	-	-	-	-	-	-
Ireland	(I£)	1.0140	+0.0033	134 - 145	1.0172	1.0114	1.0138	0.2	1.0134	0.2	1.0153	-0.1	105.5
Italy	(L)	2513.94	-0.46	299 - 489	2526.48	2510.84	2519.54	-2.7	2530.94	-2.7	2581.44	-2.7	74.4
Luxembourg	(LFr)	50.4027	+0.0911	692 - 361	50.5700	50.3290	50.3727	0.7	50.3027	0.8	50.1627	0.5	117.1
Netherlands	(Fl)	2.7500	+0.0023	490 - 510	2.7563	2.7421	2.7486	0.0	2.7442	0.8	2.7097	1.5	121.0
Norway	(NKr)	10.6910	+0.0033	862 - 957	10.7251	10.6759	10.691	0.0	10.6927	-0.1	10.6916	0.0	88.4
Portugal	(Es)	250.389	+0.161	254 - 524	251.231	250.049	252.119	-8.3	255.299	-7.8	-	-	-
Spain	(Pta)	204.324	+0.155	239 - 408	204.838	203.791	204.654	-1.9	209.509	-10.2	207.934	-1.8	85.9
Sweden	(SKr)	11.8529	-0.0235	423 - 635	11.9387	11.8200	11.8719	-1.9	11.8144	-2.1	12.0589	-1.7	75.2
Switzerland	(SFr)	2.0504	+0.0002	491 - 516	2.0562	2.0450	2.0473	1.8	2.0398	2.1	1.9975	2.6	122.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.8
Ecu	-	1.2867	-0.0002	861 - 872	1.2909	1.2853	1.2868	0.0	1.287	-0.1	1.2806	0.5	-
SDR†	-	0.914005	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6078	-0.0088	073 - 082	1.0188	1.6047	-	-	-	-	-	-	-
Brazil	(R)	1.3573	-0.0037	554 - 592	1.3671	1.3550	-	-	-	-	-	-	-
Canada	(C$)	2.1819	-0.0164	810 - 827	2.1995	2.1811	2.181	0.5	2.1792	0.5	2.1759	0.3	86.8
Mexico	(New Peso)	5.5136	-0.0442	083 - 188	5.5567	5.3592	-	-	-	-	-	-	-
USA	($)	1.6092	-0.0093	078 - 085	1.6198	1.6055	1.6075	0.6	1.607	0.3	1.6003	0.5	61.8
Pacific/Middle East/Africa													
Australia	(A$)	2.1469	-0.0288	477 - 501	2.1813	2.1446	2.151	-1.2	2.1537	-0.9	2.1678	-0.9	-
Hong Kong	(HK$)	12.4314	-0.0706	283 - 345	12.5194	12.4113	12.4246	0.0	12.4189	0.4	12.3493	0.7	-
India	(Rs)	50.5040	-0.2855	849 - 230	50.8540	50.4280	-	-	-	-	-	-	-
Japan	(Y)	157.278	-0.598	163 - 392	158.300	157.080	156.828	3.4	155.813	3.7	150.578	4.3	189.8
Malaysia	(M$)	4.1225	-0.0175	208 - 242	4.1475	4.1173	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6018	-0.0251	991 - 044	2.6309	2.5977	2.6065	-2.1	2.6157	-2.1	2.6358	-1.3	-
Philippines	(Peso)	39.5605	-0.5536	715 - 495	39.7043	39.4708	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0325	-0.0348	309 - 340	6.0755	6.0227	-	-	-	-	-	-	-
Singapore	(S$)	2.3656	-0.0101	643 - 669	2.3795	2.3633	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6503	-0.0183	538 - 587	5.6855	5.6473	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5532	-0.0705	357 - 707	6.6402	6.5343	-	-	-	-	-	-	-
South Korea	(Won)	1281.78	-7.29	142 - 214	1290.82	1279.74	-	-	-	-	-	-	-
Taiwan	(T$)	41.6823	-0.2273	711 - 934	42.1642	41.8152	-	-	-	-	-	-	-
Thailand	(Bt)	40.1314	-0.1929	066 - 562	40.3820	40.0810	-	-	-	-	-	-	-

†SDR rates for Nov 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.7270	+0.0635	245 - 295	10.7495	10.6730	10.727	0.0	10.7268	0.0	10.652	0.7	104.5
Belgium	(BFr)	31.3420	+0.2375	280 - 560	31.4100	31.1700	31.3445	-0.1	31.302	0.5	31.202	0.4	106.1
Denmark	(DKr)	5.8738	-0.0398	710 - 765	5.9818	5.9383	5.9779	-0.8	5.9863	-0.8	6.0248	-0.9	105.5
Finland	(FM)	4.6900	+0.0465	850 - 950	4.7056	4.6515	4.6907	-0.2	4.6875	0.2	4.684	0.1	93.0
France	(FFr)	5.2275	+0.0327	255 - 295	5.2413	5.1960	5.2287	-0.3	5.2264	0.1	5.2143	0.3	106.8
Germany	(D)	1.5235	+0.0089	230 - 240	1.5288	1.5130	1.5233	0.2	1.5216	0.5	1.51	0.9	107.3
Greece	(Dr)	234.850	+1.55	800 - 100	235.100	233.700	235.22	-1.4	235.775	-1.4	238.025	-1.3	68.4
Ireland	(I£)	1.5860	-0.0144	855 - 865	1.6021	1.5812	1.586	0.0	1.586	0.0	1.573	0.8	-
Italy	(L)	1563.25	+8.75	300 - 350	1566.00	1557.61	1567.5	-3.3	1575.25	-3.1	1615.75	-3.4	74.7
Luxembourg	(LFr)	31.3420	+0.2375	280 - 560	31.4108	31.1700	31.3445	-0.1	31.302	0.5	31.202	0.4	109.1
Netherlands	(Fl)	1.7101	+0.0114	098 - 103	1.7122	1.6931	1.7102	0.0	1.7081	0.5	1.6965	0.8	105.8
Norway	(NKr)	6.6480	-0.0405	465 - 495	6.6635	6.6147	6.6507	-0.5	6.6635	-0.9	6.6955	-0.7	96.6
Portugal	(Es)	156.700	+1	650 - 750	155.900	155.100	156.325	-4.8	157.45	-4.5	161.95	-4.0	95.1
Spain	(Pta)	127.055	+0.83	030 - 080	127.170	126.700	127.385	-3.1	128.05	-3.1	130.665	-2.8	80.9
Sweden	(SKr)	7.3705	+0.0281	665 - 755	7.3890	7.3370	7.3852	-2.4	7.4145	-2.4	7.5545	-2.5	80.2
Switzerland	(SFr)	1.2750	+0.0075	745 - 755	1.2770	1.2655	1.2738	1.2	1.2697	1.7	1.2508	1.9	107.9
UK	(£)	1.6082	-0.0093	078 - 085	1.6198	1.6055	1.6075	0.5	1.607	0.3	1.6003	0.5	89.3
Ecu	-	1.2499	-0.0071	496 - 501	1.2572	1.2467	1.2493	0.8	1.2489	0.3	1.2471	0.2	-
SDR†	-	1.48215	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0003	997 - 998	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R)	0.8440	-0.0005	430 - 450	0.8450	0.8440	-	-	-	-	-	-	-
Canada	(C$)	1.3568	-0.0023	565 - 570	1.3600	1.3565	1.3566	0.1	1.3571	-0.1	1.363	-0.5	83.4
Mexico	(New Peso)	3.4285	-0.0075	260 - 310	3.4321	3.3310	3.4295	-0.4	3.4313	-0.3	3.4387	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	65.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3363	-0.0101	358 - 367	1.3381	1.3339	1.3366	-0.2	1.3373	-0.3	1.3446	-0.6	88.4
Hong Kong	(HK$)	7.7303	-0.0011	300 - 305	7.7305	7.7295	7.7293	0.1	7.7289	0.1	7.7329	-0.1	-
India	(Rs)	31.4050	+0.005	000 - 100	31.4150	31.4000	31.49	-3.2	31.635	-2.9	-	-	-
Japan	(Y)	97.8000	+0.195	500 - 500	98.0700	97.6000	97.57	2.8	96.97	3.4	94.245	3.6	149.9
Malaysia	(M$)	2.5635	+0.0038	630 - 640	2.5640	2.5590	2.5543	4.3	2.543	3.2	2.6165	-2.1	-
New Zealand	(NZ$)	1.6179	-0.0062	166 - 192	1.6260	1.6166	1.6189	-0.7	1.6207	-0.7	1.626	-0.5	-
Philippines	(Peso)	24.6000	-0.2	500 - 500	24.6500	24.5500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7512	+0.0001	510 - 513	3.7513	3.7510	3.7525	-0.4	3.7566	-0.6	3.7752	-0.6	-
Singapore	(S$)	1.4710	-0.0023	705 - 715	1.4715	1.4685	1.4697	1.1	1.4678	0.9	1.461	0.7	-
S Africa (Com.)	(R)	3.5173	+0.009	165 - 180	3.5180	3.5105	3.5328	-5.3	3.5611	-5.0	3.6378	-3.4	-
S Africa (Fin.)	(R)	4.0750	-0.02	650 - 850	4.1000	4.0650	4.1087	-9.9	4.1675	-9.1	-	-	-
South Korea	(Won)	787.050	+0.1	000 - 100	797.300	787.000	800.05	-4.5	803.55	-3.3	822.05	-3.1	-
Taiwan	(T$)	26.0438	+0.01	425 - 450	26.0450	26.0230	26.0638	-0.9	26.1039	-0.9	-	-	-
Thailand	(Bt)	24.9550	-0.025	450 - 650	24.9650	24.9400	25.0275	-3.5	25.155	-3.2	25.635	-2.7	-

†SDR rate for Nov 4. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 4. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¾	4⅞	5⅛	5⅝	6⅜	7.40	4.50	-
week ago	4¾	4⅞	5¼	5⅝	6⅜	7.40	4.50	-
France	5⅛	5⅛	5½	5⅞	6⅜	5.00	-	6.75
week ago	5⅝	5⅛	5½	5⅞	6⅝	5.00	-	6.75
Germany	4.90	4.95	5.15	5.25	5.60	6.00	4.50	4.85
week ago	4.78	4.95	5.15	5.30	5.65	6.00	4.50	4.85
Ireland	5⅛	5¾	5⅞	6⅛	7⅛	-	-	6.25
week ago	5⅜	6¼	5⅞	6¼	7¼	-	-	6.25
Italy	8¼	8⅜	8⅝	8⅞	10⅛	-	7.50	8.20
week ago	8¼	8⅜	8⅞	8⅞	10⅜	-	7.50	8.20
Netherlands	4.84	5.06	5.24	5.38	5.76	-	5.25	-
week ago	4.84	5.06	5.20	5.34	5.74	-	5.25	-
Switzerland	3⅞	3⅞	4⅛	4⅜	4⅝	6.625	3.50	-
week ago	3⅜	3⅞	4⅛	4¼	4⅝	6.625	3.50	-
US	4⅞	5⅛	5⅞	6	6⅝	-	4.00	-
week ago	4⅞	5⅛	5⅝	5⅞	6⅛	-	4.00	-
Japan	2⅛	2¼	2⅜	2⅛	2⅜	-	1.75	-
week ago	2⅛	2⅛	2⅜	2⅛	2¾	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5½	6⅛	6⅞	-	-	-
week ago	-	5⅜	5⅞	6	6⅜	-	-	-
US Dollar CDs	-	5.06	5.45	5.83	6.47	-	-	-
week ago	-	5.08	5.35	5.71	6.31	-	-	-
SDR Linked Ds	-	3⅝	3⅞	3⅞	4	-	-	-
week ago	-	3⅝	3⅞	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5½; 3 mths: 5⅞; 6 mths: 6⅛; 1 year: 6⅞. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4$\frac{15}{16}$ - 4⅞	4$\frac{15}{16}$ - 4⅞	5 - 4⅞	5¼ - 5⅛	5$\frac{9}{16}$ - 5$\frac{7}{16}$	6$\frac{3}{16}$ - 6$\frac{1}{16}$
Danish Krone	5½ - 5¼	5⅝ - 5¼	5$\frac{15}{16}$ - 5$\frac{9}{16}$	6½ - 6¼	6$\frac{15}{16}$ - 6$\frac{11}{16}$	7$\frac{9}{16}$ - 7⅝
D-Mark	4$\frac{15}{16}$ - 4$\frac{13}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5 - 4⅞	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5¼ - 5⅛	5$\frac{11}{16}$ - 5$\frac{9}{16}$
Dutch Guilder	5 - 4⅞	5 - 4⅞	5 - 4⅞	5$\frac{5}{16}$ - 5⅛	5⅜ - 5¼	5¾ - 5⅝
French Franc	5⅜ - 5¼	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5⅝ - 5½	5$\frac{13}{16}$ - 5$\frac{11}{16}$	6⅜ - 6¼
Portuguese Esc.	9¼ - 8	9 - 8⅞	9⅝ - 9⅛	10¼ - 10	10½ - 10¼	10⅝ - 10⅜
Spanish Peseta	7½ - 7⅜	7⅝ - 7$\frac{7}{16}$	7⅝ - 7½	8 - 7$\frac{13}{16}$	8⅜ - 8⅛	9⅛ - 9
Sterling	5⅞ - 5¾	5¾ - 5½	5$\frac{13}{16}$ - 5$\frac{11}{16}$	6$\frac{3}{16}$ - 6	6½ - 6$\frac{7}{16}$	7⅜ - 7¼
Swiss Franc	3$\frac{13}{16}$ - 3$\frac{11}{16}$	3$\frac{13}{16}$ - 3$\frac{11}{16}$	3¾ - 3⅝	4$\frac{1}{16}$ - 3$\frac{15}{16}$	4¼ - 4⅛	4⅝ - 4½
Can. Dollar	4⅞ - 4$\frac{11}{16}$	5$\frac{1}{16}$ - 4⅞	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5⅝ - 5½	6$\frac{3}{16}$ - 6$\frac{1}{16}$	7$\frac{1}{16}$ - 6$\frac{15}{16}$
US Dollar	4¾ - 4⅝	4$\frac{13}{16}$ - 4$\frac{11}{16}$	5$\frac{1}{16}$ - 5$\frac{1}{16}$	5¾ - 5⅝	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{11}{16}$ - 6$\frac{9}{16}$
Italian Lira	9 - 7½	8⅜ - 8¼	8⅜ - 8¼	8¾ - 8⅝	9¼ - 9⅛	10⅛ - 10
Yen	2$\frac{3}{16}$ - 2¼	2$\frac{5}{16}$ - 2¼	2$\frac{11}{32}$ - 2$\frac{7}{32}$	2⅜ - 2¼	2½ - 2$\frac{7}{16}$	2$\frac{13}{16}$ - 2¾
Asian $Sing	2⅞ - 2¾	2¾ - 2⅝	3 - 2⅞	3⅜ - 3¼	3¾ - 3⅝	4⅛ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.96	93.90	-0.06	94.03	93.89	106,656	416,107
Mar	93.45	93.40	-0.07	93.53	93.38	122,945	406,363
Jun	92.99	92.91	-0.08	93.06	92.89	78,429	295,843

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.56	94.50	-0.05	94.59	94.49	1,238	17,304
Mar	94.04	93.96	-0.07	94.06	93.95	243	10,331
Jun	-	93.48	-0.08	93.61	93.48	72	5,929

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.06	16.68	4.861	2.012	4988	5.456	21.21	496.8	405.4	23.51	4.067	1.984	4.329	3.190	312.1	2.554
Denmark	(DKr)	52.47	10	8.751	2.550	1.056	2617	2.863	11.13	260.7	212.7	12.34	2.134	1.041	2.271	1.674	163.8	1.340
France	(FFr)	59.86	11.43	10	2.915	1.206	2991	3.271	12.72	297.9	243.0	14.10	2.439	1.180	2.598	1.913	187.1	1.531
Germany	(DM)	20.57	3.921	3.431	1	0.414	1026	1.122	4.363	102.2	83.39	4.837	0.837	0.408	0.891	0.656	64.20	0.525
Ireland	(I£)	49.70	9.473	8.290	2.416	1	2479	2.712	10.54	246.9	201.5	11.69	2.022	0.986	2.152	1.586	156.1	1.269
Italy	(L)	2.005	0.382	0.334	0.097	0.040	100.	0.109	0.425	9.960	8.128	0.471	0.082	0.040	0.087	0.064	6.257	0.051
Netherlands	(Fl)	18.33	3.493	3.057	0.891	0.369	914.2	1	3.887	91.05	74.29	4.309	0.745	0.364	0.794	0.585	57.20	0.468
Norway	(NKr)	47.15	8.986	7.863	2.292	0.949	2352	2.572	10	234.2	181.1	11.09	1.918	0.935	2.041	1.504	147.1	1.204
Portugal	(Es)	20.13	3.836	3.357	0.978	0.405	1004	1.098	4.269	100.	81.59	4.732	0.819	0.399	0.869	0.642	62.82	0.514
Spain	(Pta)	24.67	4.702	4.115	1.199	0.496	1231	1.346	5.233	122.8	100.	5.800	1.003	0.489	1.058	0.787	76.99	0.630
Sweden	(SKr)	42.53	8.106	7.094	2.068	0.856	2122	2.321	9.021	211.3	172.4	10	1.730	0.844	1.841	1.357	132.7	1.086
Switzerland	(SFr)	24.59	4.686	4.100	1.195	0.495	1226	1.341	5.215	122.1	99.66	5.780	1	0.488	1.064	0.784	76.73	0.628
UK	(£)	50.40	8.606	8.408	2.450	1.014	2514	2.750	10.69	250.4	204.3	11.85	2.050	1	2.182	1.608	157.3	1.287
Canada	(C$)	23.10	4.402	3.852	1.123	0.465	1152	1.260	4.899	114.8	93.63	5.431	0.940	0.458	1	0.737	72.09	0.590
US	($)	31.34	5.974	5.228	1.524	0.631	1563	1.710	6.648	155.7	127.1	7.369	1.275	0.622	1.357	1	97.82	0.800
Japan	(Y)	32.04	6.107	5.344	1.558	0.645	1598	1.748	6.796	159.2	129.8	7.533	1.303	0.636	1.387	1.022	100.	0.818
Ecu		39.16	7.464	6.531	1.904	0.788	1953	2.137	8.306	194.8	158.7	8.207	1.593	0.777	1.695	1.249	122.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6580	0.6600	+0.0007	0.6610	0.6545	44,771	84,742
Mar	0.6605	0.6613	+0.0007	0.6616	0.6565	522	5,592
Jun	0.6605	0.6633	+0.0009	0.6630	0.6600	2	1,258

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7895	0.7901	-	0.7918	0.7842	22,752	38,681
Mar	0.7905	0.7935	+0.0001	0.7950	0.7877	178	2,113
Jun	-	0.7980	+0.0004	-	0.7940	8	178

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0288	1.0290	+0.0017	1.0298	1.0293	32,247	62,308
Mar	1.0338	1.0377	+0.0019	1.0380	1.0325	429	7,722
Jun	-	1.0483	+0.0021	1.0470	1.0455	13	766

■ **STERLING FUTURES** (IMM) $62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6196	1.6144	-0.0022	1.6196	1.6040	13,758	44,862
Mar	1.6068	1.6136	-0.0018	1.6146	1.6030	81	651
Jun	-	1.6114	-0.0014	-	1.6040	1	17

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.550	6.33	6.54	6.83	-	0.22	0.55
1.575	3.87	4.45	4.81	0.02	0.61	1.10
1.600	1.70	2.70	3.29	0.23	1.35	1.96
1.625	0.35	1.49	2.10	1.38	2.53	3.14
1.650	0.03	0.72	1.24	3.46	4.24	4.73
1.675	-	0.29	0.67	5.90	6.29	6.66

Previous day's vol., Calls 57,937 Puts 12,150. Prev. day's open int., Calls 422,871 Puts 426,510

■ **Pound in New York**

Nov 4	---Close---	--Prev. close--
£ spot	1.6160	1.6175
1 mth	1.6153	1.6167
3 mth	1.6151	1.6160
1 yr	1.6087	1.6082

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition

UK INTEREST RATES

LONDON MONEY RATES

Nov 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 4	5⅞ - 5⅜	5$\frac{13}{16}$ - 5$\frac{11}{16}$	6⅛ - 6	6½ - 6⅜	7⅜ - 7¼
Sterling CDs	-	-	5¾ - 5⅝	6 - 5$\frac{15}{16}$	6$\frac{7}{16}$ - 6⅜	7¼ - 7⅛
Treasury Bills	-	-	5⅝ - 5½	5$\frac{15}{16}$ - 5$\frac{13}{16}$	-	-
Bank Bills	-	-	5$\frac{23}{32}$ - 5$\frac{19}{32}$	6 - 5⅞	6$\frac{7}{16}$ - 6$\frac{5}{16}$	-
Local authority deps.	5$\frac{9}{16}$ - 5$\frac{7}{16}$	5$\frac{9}{16}$ - 5$\frac{7}{16}$	5¾ - 5⅝	6⅛ - 6	6$\frac{7}{16}$ - 6$\frac{5}{16}$	7$\frac{5}{16}$ - 7$\frac{3}{16}$
Discount Market deps	6¼ - 5¼	5⅝ - 5½	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ¾pc.
Ave. tender rate of discount 5.4342pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1994. Agreed rate for period Nov 26, 1994 to Dec 25, 1994, Schemes II & III 7.23pc. Reference rate for period Oct 1, 1994 to Oct 31, 1994, Schemes IV & V 5.968pc. Finance House Base Rate 6pc from Nov 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 4	Oct 28		Nov 4	Oct 28
Bills on offer	£500m	£500m	Top accepted rate	5.5753%	5.4349%
Total of applications	£1843m	£2159m	Ave. rate of discount	5.5304%	5.4342%
Total allocated	£350m	£500m	Average yield	5.6077%	5.5086%
Min. accepted bid	£98.610	£98.645	Offer at next tender	£350m	£500m
Allotment at min. level	67%	94%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday November 2, 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,151,871,770	+163,727,759
Bankers deposits	1,649,703,266	-2,765,904
Reserve and other accounts	3,074,471,120	-175,983,475
	5,890,599,156	-15,021,620
Assets		
Government securities	1,448,489,768	+345,524,999
Advance and other accounts	3,267,528,648	-186,636,165
Premises, equipment and other secs	1,170,602,491	-173,655,774
Notes	3,801,665	+4,748,727
Coin	179,586	+6,593
	5,890,599,156	-15,021,620
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,194,101,357	+8,251,273
Notes in Banking Department	5,808,643	+1,748,727
	18,200,000,000	+10,000,000
Assets		
Other Government securities	9,370,147,838	-1,295,158,912
Other Securities	8,829,852,162	+1,305,158,912
	18,200,000,000	+10,000,000

FT GOLD MINES INDEX

	Nov 4	% chg since 31/12/93	Nov 3	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	Low
Gold Mines Index (34)	2127.50	-4.7	2124.23	51.88	100.00	2.04	2387.40	1782.02

■ Regional Indices
[illegible]

BASE LENDING RATES

Adam & Company 5.75
Allied Trust Bank 5.75
AIB Bank 5.75
●Henry Ansbacher 5.75
Bank of Baroda 5.75
Banco Bilbao Vizcaya 5.75
Bank of Cyprus 5.75
Bank of Ireland 5.75
Bank of India 5.75
Bank of Scotland 5.75
Barclays Bank 5.75
Duncan Lawrie 5.75
Exeter Bank Limited 6.75
Financial & Gen Bank 6.5
●Robert Fleming & Co 5.75
Girobank 5.75
●Guinness Mahon 5.75
Habib Bank AG Zurich 5.75
●Hambros Bank 5.75
Heritable & Gen Inv Bk. 5.75
●Hill Samuel 5.75
* Roxburghe Bank Ltd is no longer authorised as a banking institution. 6
Royal Bk of Scotland 5.75
●Smith & Williamson Secs 5.75
TSB 5.75
●United Bk of Kuwait 5.75
Unity Trust Bank Plc 5.75
Western Trust 5.75
Whiteaway Laidlaw 5.75

● Members of London Investment Banking Association

UK GILTS PRICES

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STOCK INDICES

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lazard Freres Asset Management (CI) Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

Slager & Friedlander Inv Funds Ltd - Contd.

Swiss Life Investment Fund - Proteus (u)

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Bank of Ireland - Contd.

CMI Fund Managers (IoM)

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Foreign & Colonial Mngmt (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

DB Investment Management SA

Den norske Bank

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

مكتبة من الأجل

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(♥) - 0001 to 1100 hours
(♣) - 1101 to 1400 hours
(♦) - 1401 to 1700 hours
(♠) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
x - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities)
4 - Offered price includes all expenses except agent's commission.
z - Previous day's price.
G$ - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
‡ - Only available to charitable bodies
Φ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend.

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	£21⅞	1.7	Q87%	ф	Sep May	9'93	–
ANZ A$		174	1.2	Q20c	0.7	Jan Jul	9.12	–
Abbey National	†N□	416	–1.2	15.5	2.1	May Oct	19.8	6491
Allied Irish I£	‡†N□	257	2.8	Q55⅓%	2.7	Oct May	10.3	1354
Anglo Irish I£	‡N□	56	–3.4	Q17.9%	1.7	Jan Jul	0.8	1355
Asahi Y	□	698¼	–2.8	Q14%	ф	Jan Dec	12'92	3049
Banco Bil Viz Pta	□	£19⅝	3.4	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£27⅛	–4.5	Q38%	2.0	MyAuOcJa	1.8	–
Bk Ireland I£	‡□	259	0.7	Q13.2%	3.2	Jul Dec	10.8	1360
Bank Scotland	‡†N□	207xd	1.0	5.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		107¼xd	0.5	9¼%	–	May Nov	17.10	1462
9¾pc Pf		112¼xd	0.2	9¾%	–	May Nov	17.10	1686
Barclays	‡†N□	589	1.9	16.65	1.9	Oct May	15.8	1764
Dai Ichi Kan Y	□	£11⅛	1.5	Q18%	1.2	Jun Dec	9'93	–
Deutsche DM	□	£298⅞	–1.0	Q83%	–	May	6'93	–
Espirito Santo	□	27⅜	–11.2	Q60c	5.2	Jun	6'93	3107
First Nat Fin	N□	68	–	1.0	–	Mar Aug	18.7	2571
9.3pc Cv Pf		71	–	9.3%	–	Jul Jan	0.8	2570
7pc Cv Pf		125½	–	7.0	–	Jul Jan	8.6	1409
Fuji Bank Y	□	1395	1.1	Q17%	ф	Dec Jun	7'93	–
HSBC HK	†N□	737xd	1.7	24.5	2.4	Nov Jun	6.8	2798
HSBC (75p Shs)	†N□	753xd	2.1	24.5	2.4	Nov Jun	5.9	2776
Lloyds	†N□	574	1.1	23.0	2.1	Oct May	6.6	3171
Mitsubishi Y	□	£14⅜	–1.4	Q17%	ф	Jun Dec	12'92	–
Mitsu Tst & Bk Y	□	947¼	0.5	Q18%	12.4	Jun Dec	12'92	–
Mitsui Tst & Bk Y	□	699½	–.4	Q17%	0.3	Jun Dec	12'92	–
Nat Aust A$	†	495	1.2	Q58c	1.7	Jul Jan	21.6	–

CHEMICALS

BREWERIES

DISTRIBUTORS

BUILDING & CONSTRUCTION

DIVERSIFIED INDUSTRIALS

BUILDING MATS. & MERCHANTS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Anglo Am Ind		£29¾	-3	Q375c	1.8	Oct Apr	3'93	-
Barlow	Z	£4½	-2.1	018c	-	Jul	20.6	-
Gold Flds Prop R		118xg	....	052c	♦	Feb Sep	31.1	-
NA Props		95	....	067.7c	-	Feb Sep	10'89	-
SASOL	♥	528	-6.9	078c	-	Oct	9'93	-
SA Brews		£15⅝	9.9	0155c	2.2	Dec Jun	30.5	-
Tiger Oats	†	696	-5.0	085c	2.9	Jul Feb	6.6	-
Tongaat-Hulett	h	675	-2.9	078.8c	2.4	Feb Aug	4.1	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
- †† Rule 4.2(a) UK & Irish incorporated non-listed companies
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganization in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. S Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Mackie Int'l (Eng), Cont'l Foods Wrts and Man ED & F (Food Manuf), Baillie Gifford Japan Wrts and Baillie Gifford Shin Nippon Wrts & Do Wrts 2005 (Inv Trusts). Deletions: Malvy Tech (Americans) and Aitken Hume (Other Fncl).

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4 pm close November 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅜	12⅛	AAR x	0.48	3.9	20	70	12⅜	12¼	12¼	
16	12⅝	A L Labs A	0.18	1.1	39	18	17	16⅞	16⅞	
79⅜	57⅝	AMP x	1.58	2.2	20	1516	75⅞	75¼	75½	-½
72¾	48⅛	AMR			63	2843	54	52⅜	52½	-1⅜
5	3⅛	ARX			13	323	4	3¾	3⅞	-⅛
98⅝	38⅝	ASA	2.00	4.2	31	185	48⅛	47⅞	47⅞	-⅛
32	25¾	AbbotL	0.76	2.6	16	7242	31⅜	21	31	-⅜
15¼	11⅜	AbtAbl Pr	0.50	2.8	11	55	13¼	13	13	-⅛
23⅝	11¾	ABM Ind	0.52	2.6		68	20⅝	20⅜	20⅜	
18	11⅛	Acptncaln			31	270	11	16⅞	16⅞	-⅛
31	32	ACE Ltd	0.44	2.0	28	510	22⅛	22¼	22½	
13⅛	9¾	ACM Gvt In	1.09	11.1		731	9½	8⅞	9⅞	-⅛
10⅛	1	ACM GvOpp	0.50	11.2		163	7¼	1⅛	7⅛	-⅛
10⅝	7	ACM Gvt Sp	0.80	13.5		228	7¼	7⅛	7⅛	
12	8⅛	ACM Gvt Se	1.09	12.8		554	8¾	8¼	8½	+¼
11¾	7⅜	ACM Mgn	1.00	13.3		167	8⅛	8	9⅛	+⅛
9¼	0	ACM Managd	0.72	0.0		08	9¼	8⅛	8⅛	
15½	8¾	AcmeCle x	0.44	3.4	15	180	13⅛	12⅞	12⅞	-⅛
13⅝	8½	Acme Elect			11	64	11¾	11¼	11¼	-⅜
28¼	20	Acordia	0.60	2.2	14	10	28	27⅞	27⅞	-¼
13¾	5¾	Action	0.36	2.8	2	1691	18⅜	0½	10⅛	+½
18⅜	11¼	Acuson			128	1332	18⅛	17¾	17⅞	-¼
18⅛	18½	Adams Expr	0.40	2.9	0	119	16⅞	16⅛	16⅜	
64	48½	Ad Micro	3.00	5.4		558	56⅝	55⅞	55⅞	-⅝
31¾	16¾	AdvMic	3.00	11.5	11	6140	28¾	20	28	-⅛
6⅞	5	Advest Grp	0.19	3.1	0	52	5⅛	5⅛	5⅛	-⅛
20	15	Advo Inc	0.10	0.0	110	310	18	17⅞	17⅞	
64	49⅜	Aegon ADR	1.47	2.4	13	0	62	61⅝	61⅝	-⅛
65¾	44	AetnaL x	2.76	5.0	9	1596	47½	46⅞	46⅞	-⅛
36⅛	25¼	Aflac	0.46	1.8	14	1071	35½	34¾	34¾	-⅛
22¾	18⅜	Ahmson x	0.50	4.6	13	676	18½	18⅛	18¼	+⅜
4	1⅜	Aileen Inc			1	63	1¾	1¾	1¾	
50⅜	38⅞	AirPrC	0.98	2.1	25	4625	47¼	46¾	46¾	+⅛
39⅞	18	Airbne Frt	0.30	1.8	11	1148	19⅛	19⅛	10⅛	+⅛
26⅞	18⅛	Airgas Inc			49	375	28½	28⅜	28⅜	+⅛
17	14¼	Airlease	1.84	11.6	12	98	15⅝	15¾	15⅝	
30⅝	21⅜	AirTch				5050	28⅝	27⅞	27⅞	-⅛
18⅞	13⅝	Alaska Air	0.20	1.1	26	1121	17⅞	17⅜	11½	-½

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4 pm close November 4

NYSE COMPOSITE PRICES

Continued from previous page

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NASDAQ NATIONAL MARKET

4 pm close November 4

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	19	65	14½	14	12¼	+⅛
ACC Corp	0.12	152	640	17	15½	10¾	+¾
Acclaim E		22	11000	17½	10⅛	16¾	-⅞
Acme Mtls		10	352	19¼	19½	18[illegible]	+[illegible]
Acxiom Cp		40	14	29¾	28	28⅝	-⅜
Adaptech		21	6648	24⅛	23	23[illegible]	-[illegible]
ADC Tele		35	982	45½	43	43⅛	-2⅛
Addington		0	2007	11	10½	10½	-½
Adia Serv	0.16	21	103	36½	35¾	35¾	-¼
Adobe Sys	0.20	28	12340	35	33¾	34½	-¼
Advance C		7	254	11	10¾	10⅞	-⅛
Adv Logic		9	203	4⅝	2⅜	4½	+⅛
Adv Polym		0	82	4⅝	4[illegible]	4[illegible]	
AdvTchLab		22	1067	10½	15¾	10[illegible]	-[illegible]
Advanta	0.27	13	3079	27½	d26½	26¾	-¼
Affymax		12	322	17¼	16½	18½	-¼
AgnicoEa	0.10	138	376	12⅝	12⅜	12½	-⅛
AirExpr	0.24	19	187	u29⅛	29	20⅞	
Akzo ADR	1.51	21	371	60	59⅝	59⅞	-1
AldBld x	0.88	15	1094	22¾	22¼	22⅝	-1
Allegh &W		20	93	10⅞	10¾	10¾	+¼
Allen Org	0.52	14	36	36¼	36	36½	
Alcan Pn		3	938	7½	d6⅞	7⅛	-⅝
AlldCapII	1.00	13	66	15	14⅜	[illegible]	-[illegible]
Alld Cap	0.00	12	117	13¾	13¼	13¾	
Aloette C	0.32	8	34	2[illegible]	2¾	2⅞	-⅝
Alta Gold	0.06	73	364	1½	1[illegible]	1[illegible]	-[illegible]

[illegible]

AMEX COMPOSITE PRICES

4 pm close November 4

[illegible]

FT GUIDE TO THE WEEK

7 MONDAY

Preparations for Apec

Trade ministers and officials from 18 Pacific rim countries meet in Jakarta this week to prepare for the second summit of the Asia-Pacific Economic Co-operation forum. The summit, in Bogor, Indonesia, on November 15, will be hosted by President Suharto and attended by US President Bill Clinton and the heads of other Apec states.

The summit will try to agree a declaration calling for "open regionalism" and achievement early next century of free trade and investment in Apec, consistent with the principles of the General Agreement on Tariffs and Trade.

Africa after Mitterrand: The Franco-African summit in Biarritz, south-western France, until Wednesday, will ponder whether France's special relationship will change when François Mitterrand's 14-year presidency ends.

Prime minister Edouard Balladur, a possible successor, may warn leaders, jolted by last year's 50 per cent CFA devaluation, that France's $1.5bn annual aid is conditional on further reforms.

Slovenia's prime minister Janez Drnovšek arrives in London, hoping for British support in persuading Italy to stop blocking negotiation of a European Union association agreement with his country. Italy is trying to use the issue to win Slovenian concessions on property rights for the heirs of Italian citizens who lost their homes in territory transferred from Italy to Yugoslavia after the second world war.

Genetic drugs: The World Health Organisation, meeting in Geneva (to Nov 8), brings together scientists, doctors and consumer representatives to draw up safety and ethical guidelines for vaccines and drugs derived from genetic engineering.

Boutros Boutros-Ghali, United Nations secretary-general, chairs a crisis meeting in Geneva to discuss sending UN troops into the lawless Rwandan refugee camps in Zaire.

The Solomon Islands parliament is due to elect a new prime minister, following the resignation of Billy Hilly last week. The Solomons have been the subject of international environmental concern recently, because of heavy logging activity, and the election may be critical to the way in which this issue is tackled.

Bosses binge: The Confederation of British Industry's annual conference gets under way in earnest in Birmingham (to Nov 8). Topics for discussion include European competitiveness and environmental legislation.

FT Surveys: Birmingham and the West Midlands and China.

Holidays: Bangladesh (National Solidarity Day), Colombia, Russia and Ukraine (Great October Socialist Revolution), Tunisia.

8 TUESDAY

US mid-term elections

Elections take place for 35 of the 100 seats in the Senate, all 435 seats in the House of Representatives and 36 state governors' seats.

The big question is whether the Republicans can take control of the House or Senate, or even both, and thus make life even more miserable for President Bill Clinton (left). The 56 to 44 Democratic Party edge in the Senate looks most vulnerable, but a 40-seat Republican gain in the House is needed to overturn the 256-178-1 (an independent) deficit. Of the 36 governorships up for grabs, 22 are being defended by Democrats.

Israel's prime minister Yitzhak Rabin meets Yassir Arafat, chairman of the Palestine self-rule authority, to discuss Israel's delay in handing over the occupied West Bank to Palestinian self-rule, and Israeli demands for a crackdown on the militant Islamic group Hamas.

German-Czech manoeuvres: The two countries begin joint military exercises in Bohemia, aimed at increased military and security co-operation (to Nov 11). But they take place against the background of strained relations between Prague and Bonn, which have got worse following attacks on German tourists in the Czech Republic.

War crimes tribunal: The international tribunal for war crimes in former Yugoslavia is due to open in The Hague. In the first such court in Europe since Nuremburg, Justice Richard Goldstone of South Africa will try defendants who are seated behind a bullet-proof shield – if there are any.

One difference from its model at the end of the second world war is that the victor is not running the trials, so there is no authority to enforce extradition of alleged war criminals.

European Union industry ministers meet in Brussels to discuss a joint Commission-industry plan to rescue Europe's steel sector by cutting capacity.

People's MBA: The People's Republic of China's first business school is founded in Shanghai. The China-Europe International Business School is backed by the European Union, and a number of European companies including Airbus industrie, are sponsoring it. Sir Leon Brittan, EU commissioner for external relations, will lay the foundation stone. Courses are due to start in March 1995 and will produce 50 to 100 MBAs a year at first.

FT Surveys: International Fund Management and India.

Holidays: Russia and Ukraine (Great October Socialist Revolution).

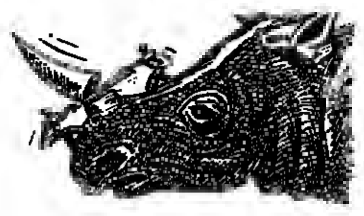
9 WEDNESDAY

Finnish vote on EU treaty

Finland's parliament had hoped to have voted in favour of European Union membership by today, clearing the way for the country to join the union on January 1 1995. The move, following last month's referendum when Finns voted in favour of membership by 56.9 per cent to 43.1 per cent, needs to be approved by a two-thirds majority of the 200-seat legislature. However, it may be postponed in the wake of delaying tactics by anti-EU MPs.

Sri Lanka holds a presidential election. The current prime minister, Chandrika Kumaratunge, of the left-inclined People's Alliance is expected to win easily against Srima Dissanayake, widow of Gamini Dissanayake, the opposition leader recently assassinated by Tamil Tiger guerrillas.

Endangered species: Threatened wildlife will be debated at the two-yearly conference of signatories to the UN Convention on International Trade in Endangered Species, which is meeting in Fort Lauderdale, Florida. Among highly charged topics on the agenda are South Africa's desire to reclassify elephants and white rhino in a less critical category following growth in animal numbers. But green groups will be fighting for tighter curbs.



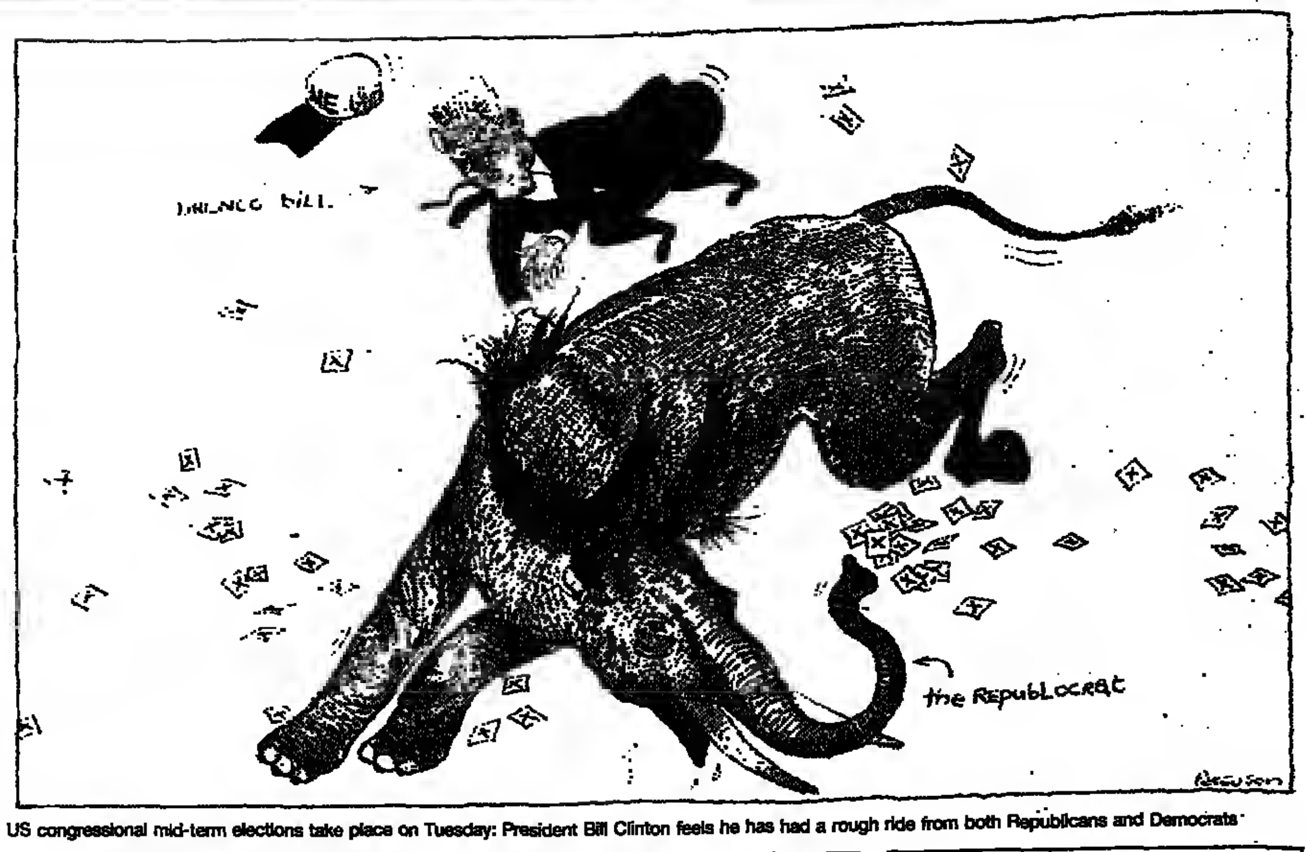
Open channels: Turkey's president Suleyman Demirel opens an irrigation scheme for the arid Harran plain in the south-east of the country. Two giant tunnels extending more than 50km (31 miles) take water from the Ataturk dam on the Euphrates and then distribute it through a 14,000km network of canals and troughs that will eventually serve 1.7m hectares (4.2m acres).

Saleroom: Monet painted the waterlilies in the garden of his home at Giverny more than 100 times, but only on four occasions in a circular format. The only example not in a museum comes up for sale at Christie's main autumn auction of important Impressionist and modern works of art in New York tonight. It is from the collection of the New York arts patron, the late Miss Alice Tully, and is expected to make between $4m and $6m.

Fall of the Wall: Today is the fifth anniversary of the opening of the Berlin Wall. Celebrations and speeches are planned throughout the united capital of Germany.

FT Survey: Bolivia and Finland.

Holidays: Nepal (Constitution Day), Pakistan, Spain (Madrid only).



US congressional mid-term elections take place on Tuesday: President Bill Clinton feels he has had a rough ride from both Republicans and Democrats

10 THURSDAY

Sum put on Uruguay Round

The Uruguay Round trade accords will make the world some $500bn a year richer within a decade, according to a report from the General Agreement on Tariffs and Trade to be released today.

Euro-Defence: In Brussels, representatives of the nine member states of the Western European Union are expected to choose a new secretary-general for the defence organisation, likely to increase its role in European security. Behind-the-sceoes consultations having failed to produce a consensus, there are three leading candidates: Jose Cutilheiro of Portugal and Giovanni Jannuzzi of Italy, both career diplomats, and Enrique Baron Crespo, the Spanish socialist politician.

Germany's newly-elected Bundestag, or lower house, holds its opening session at the Reichstag in Berlin.

Air waves: Australia and New Zealand's transport ministers are to meet in Canberra to discuss their open skies policy. Last month, Australia unilaterally froze a memorandum of understanding giving Air New Zealand the right to fly internal domestic rontes from November 1, ceusing outrage on the New Zealand side.

Chess: Garry Kasparov tries to come from behind in the final of the Intel World Chess Grand Prix in Paris (to Nov 13). Grandmasters from India, Russia and the Ukraine lead the world No. 1 in the race for the $50,000 first prize.

11 FRIDAY

Apec trade ministers meet

Apec trade ministers begin a two-day meeting to approve the final text of the summit declaration.

Antiquities smuggling: A former senior Greek police officer, Michalis Nistakis, goes on trial charged with antiquities smuggling. Nistakis was fired in 1993 as chief of police for the Attica region, which includes Athens, following allegations that he collaborated with a German antiquities smuggler in exporting illegally excavated artefacts from his native island of Crete.

Saleroom: Christie's in New York sells one of the most famous manuscripts in private hands, a group of loose sheets on which Leonardo da Vinci put down ideas and observations, including many drawings, in the first decade of the 16th century. Formerly known as the Codex Leicester, until the Earl of Leicester sold it at Christie's in 1980 to the oil billionaire, the late Armand Hammer, for £2.42m ($4m), the Codex Hammer is being sold by his private museum and is estimated at $10m.

Ring of bright water: The Queen opens the 50-mile £250m Thames Water Ring Main. The pipe will help supply drinking water to more than 3m people in the London area.

FT Survey: Hungary.

Holidays: Belgium and France (Armistice Day), Poland (National Day), US (Veterans' Day).

12-13 WEEKEND

Swedish EU referendum

Sweden holds its referendum on membership of the European Union on Sunday. A nail-biting finish is in prospect, with polls giving conflicting evidence on the outcome. A Swedish No would almost certainly doom the pro-EU campaign in neighbouring Norway, which holds its own referendum on the issue on November 28.

US-China trade: At an Apec side-meeting on Saturday, Mickey Kantor, US trade representative, is due to hold bilateral talks with Wu Yi, China's foreign trade minister, on Beijing's negotiations to re-join the General Agreement on Tariffs and Trade.

Italian trade unions plan a 1m-strong demonstration in Rome on Saturday to protest against the government's 1995 budget and pension reform. It follows a general strike two weeks ago.

The government is struggling to retain the identity and objectives of its budget despite more than 1,000 amendments tabled by both the members of the governing right-wing coalition and the opposition.

Rugby: England play Romania at the Twickenham ground in London on Saturday.

Motor racing: The Formula One season ends on Sunday with the Australian Grand Prix at Adelaide.

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ECONOMIC DIARY

Other economic news

Monday: When the Central Statistical Office published its estimate of the UK's third-quarter gross domestic product, it indicated a slowdown in the manufacturing sector, with the service sector showing faster growth. Today's figures are expected to reveal that manufacturing output rose by 0.5 per cent in September. But after the fall in August, that means third-quarter growth will only be about 0.5 per cent.

Consumer credit figures for September will also be published today, in both the UK and the US, with the UK figure expected to drop to £485m, from August's record figure of £632m.

Wednesday: The UK's world trade figures for August are expected to show a continuation in the recent improvement, with the deficit falling to £600m, from July's £704m.

Thursday: The Bundesbank council meets for its routine fortnightly review of monetary tactics. Interest rate cuts remain on the agenda, just. President Hans Tietmeyer said on Friday that the bank needed a clearer overview before it could tell if its rates were still appropriate – and he added a warning to the effect that they could go up as well as down.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Japan	Sep Bank of Japan corp.serv.price*	-	-0.2%
Nov 7	Japan	Sep Bank of Japan corp.serv. pr.**	-	-0.8%
	US	Sep consumer credit ($bn)	10bn	11.2bn
	UK	Sep manufacturing output*	0.5%	-0.3%
	UK	Sep manufacturing output**	4.4%	4.1%
	UK	Sep industrial production*	0.5%	-0.1%
	UK	Sep credit business (£m)	485m	632m
	Austral.	Sep ANZ job ads	-	4.0%
Tues	Germany	Oct unemployment rate – west†	-5k	-5k
Nov 8	Germany	Sep employment rate – west†	3k	2k
	Germany	Oct vacancies – west	0k	7k
	Germany	Oct short time – west††	32k	27k
	Germany	Oct unemployment rate – east††	-11k	-64k
	Switz.	Oct unemployment rate	4.4%	4.5%
	US	Sep wholesale trade	-	-2.7%
	US	Johnson Redbrook – w/e Nov 5	-	-0.4%
	Canada	Aug estimate of labour income*	0.0%	-0.7%
	Canada	Oct housing starts – units	157k	154k
Wed	UK	Aug visible trade – global (£m)	-600m	-704m
Nov 9	France	Aug current account (FFrbn)	6bn	7.6bn
	US	Q3 productivity preliminary	-	-2.5%
	Canada	Sep motor vehicle sales*	3.1%	-1.5%
Thurs	Japan	Oct Bank of Japan data	-	-
Nov 10	Norway	Oct consumer price index*	0.2%	0.5%
	Norway	Oct consumer price index**	1.8%	1.7%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	Austral.	Oct unemployment rate†	-	9.5%
	Austral.	Oct employment rate†	-	-7.6k
	France	Oct consumer price index prelim.*	0.2%	0.3%
	France	Oct consumer price index prelim.**	1.6%	1.7%
	Sweden	Oct consumer price index*	0.3%	0.9%
	Sweden	Oct consumer price index**	2.7%	2.7%
	US	Oct producer price index	0.1%	0.5%
	US	Oct PPI ex. food & energy	0.2%	0.1%
	US	Initial claims – w/e Nov 11	323k	321k
	US	State benefits – w/e Oct 29	-	2562k
	US	M1 – w/e Oct 31 ($bn)	-0.5bn	1.2bn
	US	M2 – w/e Oct 31 ($bn)	2.0bn	-1.7bn
	US	M3 – w/e Oct 31 ($bn)	6.0bn	4.1bn
	US	Oct monthly M1 ($bn)	-3.0bn	1.2bn
	US	Oct monthly M2 ($bn)	-1.7bn	-1.4bn
	US	Oct monthly M3 ($bn)	12.5bn	3.6bn
During the week...				
	Germany	Sep retail sales**	0.8%	1.0%
	Germany	Sep retail sales – west**	-0.2%	0.0%
	Germany	Oct final cost of living*	-	0.1%
	N.lands	Sep retail sales**	0.0%	2.1%
	N.lands	Sep producer price index**	1.4%	0.9%
	France	Sep M3*†	-0.1%	-0.4%

*month on month **year on year †seas.adj. ††non s/a *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

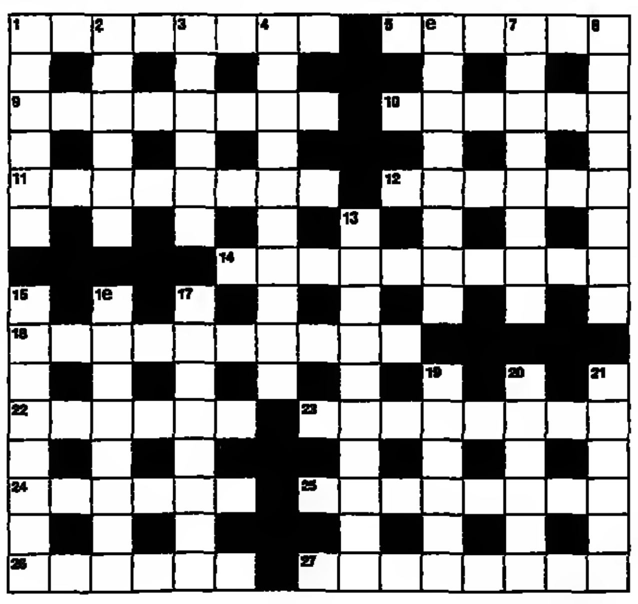
No.8,604 Set by ADAMANT

ACROSS

1 The prime minister dropped a line from Italy to most people (8)
5 Not in suitable garb (6)
9 Mishap to the alter ego in a manner of speaking (8)
10 As one who cares for horses, the queen followed lots of the action (6)
11 Love the swimmer to make a bloomer (8)
12 Try secood taste of scandal (6)
14 Volume of no value unless it is autographed (10)
18 Complementary cola price adjusted after short run (10)
22 Seat of power changes from north to east (6)
23 Awkward move hurt the Italian (8)
24 Forcible rejection of Catholic weakness (6)
25 Open University included in act on first course (8)
26 Left voting for egg production (6)
27 Swore the experiment was held in date order (8)

DOWN

1 Cry about trouble on the field (6)
2 Leading Jewish firm came up with crucial rider (6)
3 Tear outside to overdose the vermin (6)
4 Took round rent he delivered on the nail (10)
6 In rescheduled Open, sunk without a murmur (8)
7 Complete hold-up at end of one's sentence (4,4)
8 A road that can take its toll of you (8)
13 But 13 does not have such a boring basis (6,4)
15 The first tackle can be hurtful – honest! (8)
16 Famine for instance can leave a mark on the town (8)
17 Not divided on scheme for golf tournament? (4,4)
19 High court judge (6)
20 Add spice to the drink and French fish (6)
21 Called up individual with external degree (6)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday November 17, marked Monday Crossword 8,604 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 21.

Name...

Address...

....

Winners 8,592

J. Bayes, London N2
J. Fitton, Rochdale, Lancashire
Mrs N.H. Hall, Newcastle upon Tyne
H. Lambert, London SW7
L. Vanlint, Chislehurst, Kent
D. Vulliamy, Hull

Solution 8,592